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Allowable Revenue Framework Review

Alinta Energy appreciates the opportunity to provide feedback on the proposals set out in the Allowable Revenue Framework (ARF) Review Consultation Paper and acknowledges that the proposed changes reflect a genuine intent to improve the transparency of the Australian Energy Market Operator's (AEMO) funding arrangements.

We recognise AEMO's essential market function, and that its financial and operational performance directly influences WEM outcomes. AEMO's budget underpins its performance, so it is important that the ARF promotes confidence and trust while enabling efficient operations and market outcomes that align with State Electricity Objective (SEO).

Getting AEMO's budget-setting governance right is at the heart of achieving efficient market outcomes.

The ARF must not only ensure financial discipline and transparency but also enable AEMO to:

1. deliver its core functions in an efficient manner,
2. respond to emerging challenges, and
3. invest in innovation and continuous improvement practices.

We consider that the volatility and uncertainty experienced in the ARF over the past few years stems from a lack of rigour in planning and budgeting reforms. We strongly advocate that any changes to the ARF should align with and be supported by a broader more robust governance structure that ensures reforms and other major projects are more closely scrutinised in terms of their costs, benefits, timeline and coordination with other relevant factors. This alignment in approach is essential to ensure major projects benefit the customers who must ultimately pay for them; and avoid piecemeal or reactive measures in the ARF that risk unnecessarily constraining AEMO's ability to operate efficiently.

We see that the key challenge in evolving a fit-for-purpose ARF lies in striking the right balance between accountability, transparency, and strategic alignment, achievable only through a more aligned and broader governance framework that will better manage the energy transition and serve the SEO more effectively.

Strong governance supports informed decision-making, fosters stakeholder confidence, and ensures that public and industry funds are used to drive system reliability, market efficiency, and long-term value for consumers. To strengthen the framework's ability to deliver these outcomes we propose several recommendations.

Alinta Energy recommends:

- 1. A clear and transparent, strategically focused transition roadmap that links energy reform projects to the State Electricity Objective (SEO), supported by cost-benefit analysis and appropriate funding mechanisms should be established.**
- 2. A full review of broader market governance arrangements is undertaken to ensure they are fit for purpose, clearly delineate roles and responsibilities, and align with the SEO.**
- 3. Innovation funding should be embedded in the Allowable Revenue Framework as a strategic priority. Retained revenues derived from operational efficiencies should be utilised for this purpose.**
- 4. Simplified and streamlined governance over BAU expenditure by including pre-approved capital works and any energy transition roadmap projects (major or minor). This should be supported by annual independent audits and high-level digital reporting.**
- 5. The Allowable Revenue Framework should provide for a zero-based budgeting approach for BAU.**
- 6. Apply stronger governance to major projects by integrating their assessment into the compilation of an energy transition roadmap.**

- 1. A clear and transparent, strategically focused transition roadmap that links energy reform projects to the State Electricity Objective (SEO), supported by cost-benefit analysis and appropriate funding mechanisms should be established.**

We are concerned that the Review proposals do not adequately address the issue of ‘industry context’, which is acknowledged in Section 2.4.1 of the Consultation Paper as a key driver of challenges within the current ARF. This context is largely shaped by the significant and frequent market design reforms that have introduced uncertainty around the scope and timing of capital projects. We consider that, this uncertainty stems from a lack of strategic coordination and a lack of rigour in assessing the costs, benefits and competing priorities in relation to reform projects before they are actioned. This has ultimately led to volatility and uncertainty in the ARF.

To address this root cause, it is essential that the Energy Coordinator and, not AEMO, takes greater responsibility for the costs and coordination of the reforms and major projects it actions. We advocate that this leadership should be exercised through the development of a clear, transparent, and strategically focused “roadmap” that links energy reform initiatives directly to the SEO. Such a roadmap must articulate reform priorities, implementation sequencing, and expected outcomes, and be supported by rigorous cost-benefit analysis to ensure that limited resources are allocated to initiatives that deliver measurable value to the market and consumers. Furthermore, given the scale and strategic importance of these reforms, funding mechanisms beyond market fees, such as government grants, levies, or public-private partnerships, should be explored to ensure the appropriateness of funding arrangements.

Without this strategic governance framework, changes to the ARF risk becoming reactive and fragmented, potentially undermining AEMO’s ability to perform its functions efficiently, support the transition and achieve the SEO.

- 2. A full review of broader market governance arrangements is undertaken to ensure they are fit for purpose, clearly delineate roles and responsibilities, and align with the SEO.**

Building on the need for a strategically coordinated transition roadmap and a governance framework that supports the achievement of the SEO, it is increasingly evident that a broader review of the Wholesale Electricity Market (WEM) governance arrangements is urgently required. The current volatility and uncertainty in the market are being compounded by governance structures that are either not functioning as intended or are being bypassed. This issue is most clearly demonstrated by way of example:

- The formal Electricity System and Market (ESM) Rule change process, which is designed to ensure transparency, stakeholder input, regulatory oversight and rigorous assessment of costs and benefits in market reform, is being by-passed. We can appreciate that this may have been due to urgency in many occasions but are concerned that it has become the status quo for a

broad range of reforms, including those which have been less urgent relative to other competing priorities and have been added to a backlog for AEMO to implement. The lack of a formal consistent process is leading to uncertainty in the regulatory environment with many ESM (WEM) Rule changes appearing to be made:

- without consideration to broader implementation considerations such as change management, project costs, capability, capacity, dependencies, delivery milestones and timeframes.
 - without a business case, or transparency as to the cost and benefit of the changes and how they contribute to the SEO (formerly WEM Objectives).
 - without opportunities for them to be postponed or reconsidered where other changes have rendered them no longer fit for purpose.
- The continued absence of key ESM (WEM) Procedures required to be produced by AEMO, and the lack of sufficient detail in many, is compromising Market Participant understanding of AEMO's processes undermining the level of clarity and consistency necessary for effective market operation.
- Some reforms have not realised their intended benefits. An example of this is the number of generators in the WEM still operating as Existing Transmission Connected Generating Systems. The recategorisation of Existing Transmission Connected Generating System to Transmission Connected Generating Systems underpins the Generator Compliance framework in the ESM Rules.

These issues indicate a potential weakness in the current governance arrangements that, if left unaddressed, risks eroding stakeholder confidence and delaying critical reforms.

To ensure that governance arrangements are fit for purpose, a comprehensive review must clarify roles and responsibilities, reinforce accountability, and support a coordinated, transparent, and strategically aligned WEM and the environment in which it operates.

This review should consider all relevant governance arrangements including the energy transition and the ARF, ensuring that all elements serve the SEO effectively.

3. Innovation funding should be embedded in the Allowable Revenue Framework as a strategic priority. Retained revenues derived from operational efficiencies should be utilised for this purpose.

Innovation should be embedded in the ARF as a strategic priority, not only to support the energy transition, but to enable AEMO to embed continuous improvement that will deliver efficient business operations. AEMO must be empowered to invest in new technologies, digital capabilities, and process enhancements that deliver enduring efficiencies, improve service delivery, and ensure its relevance in a rapidly changing energy landscape. This is essential for AEMO to position itself as a leader in the provision of energy market operations, build capability to adapt to future challenges, and set benchmarks for operational excellence.

To support this, the ARF should enable AEMO to retain surplus revenues where they have resulted from internal efficiencies (i.e. savings generated through improved performance). The ARF should also enable AEMO to invest the surplus revenue in innovation initiatives that will lead to operational efficiency that will have broader market benefits and further promote the SEO.

This approach is consistent with AEMO's not-for-profit status (company limited by guarantee) and its Constitution, which permits the retention and application of profits (if any), other income and property being applied toward the promotion of its specified corporate objects, this includes the performance of its functions and exercise of powers conferred by legislative instrument, agreement or rules. Embedding innovation in this way not only incentivises efficient operations but ensures that the ARF supports strategic growth and long-term value creation for the market and ultimately consumers of electricity services.

4. Simplified and streamlined governance over BAU expenditure by including pre-approved capital works and any energy transition roadmap projects (major or minor). This should be supported by annual independent audits and high-level digital reporting.

The ARF should adopt a lighter governance approach for business-as-usual (BAU) expenditure, recognising that BAU could extend to include pre-approved and planned capital works expenditure as well as projects already costed and endorsed through any broader energy transition roadmap. A lighter governance approach has the benefit of removing the burden (and cost) of unnecessary administration and enable AEMO to focus on the efficient delivery of its core functions.

Transparency and accountability could be adequately maintained through an annual (or biannual) independent audit of AEMO's budget and expenditure, with findings published in a public report, subject to any confidentiality considerations. To strengthen oversight, the ERA should define the scope of the independent audit, which should be tailored from year to year to provide a level of flexibility that will accommodate specific areas, as required, any given year. In circumstances where the audit identifies that AEMO's financial management or expenditure has not been efficient or prudent (ie fails all or part of an audit) the ERA should have powers to intervene, as appropriate, with the ability to issue sanctions and rectification orders.

We support the proposal for improved annual financial reporting specific to WA, and suggest that ongoing transparency could be further enhanced through the publication of a digital reporting dashboard that tracks AEMO actual spend against its forecasts, at a high level. This approach balances the need for operational flexibility with robust accountability and transparency, ensuring that AEMO remains focused on its core functions in underpinning its role in achieving the SEO.

5. The Allowable Revenue Framework should provide for a zero-based budgeting approach for BAU.

The ARF should incorporate a zero-based budgeting approach for BAU expenditure to ensure that every dollar allocated is justified based on current needs and strategic priorities, rather than historical spending patterns. This method promotes a culture of continuous scrutiny and improvement, driving operational efficiency and ensuring that resources are aligned with AEMO's strategic priorities and evolving responsibilities.

While zero-based budgeting may introduce additional administrative effort for AEMO in preparing and setting its annual budget, the benefits will far outweigh the costs. We anticipate that benefits will include improved cost transparency, elimination of legacy inefficiencies, and stronger alignment between expenditure and priority outcomes.

In a rapidly changing environment, where AEMO must remain agile and accountable, zero-based budgeting provides a disciplined mechanism to reassess priorities annually and ensure that BAU activities continue to deliver the SEO. Embedding this approach within the framework will reinforce financial prudence and support AEMO's role as a trusted and forward-looking market operator.

6. Apply stronger governance to major projects by integrating their assessment into the compilation of an energy transition roadmap.

As previously outlined, the lack of strategic coordination in the energy transition has contributed to market volatility and uncertainty, underscoring the need for a clear governance framework and a strategically focused transition roadmap aligned with the SEO. Within this context, major projects represent significant financial and strategic commitments, and therefore require enhanced governance under the ARF.

This governance should be embedded within the transition roadmap, ensuring that only projects aligned with SEO, and supported by rigorous cost-benefit analysis, are included. Once incorporated into the roadmap, major projects should be subject to regular independent audits throughout AEMO's planning and implementation stages. These audits should assess progress against milestones, financial management, and alignment with original estimates to ensure transparency, efficiency, and accountability.

To maintain relevance and responsiveness, the roadmap itself must be subject to periodic reviews, allowing for the removal or deferral of projects that no longer meet strategic or economic thresholds. This approach complements the broader governance reforms previously recommended, ensuring that major investments are rigorously scrutinised and that AEMO can focus its resources on initiatives that deliver the greatest value to the market and consumers, while supporting the achievement of the SEO.

Thank you for your consideration of Alinta Energy's submission. Should you require further information or wish to discuss any aspect of our submission please me at [REDACTED]

Yours sincerely,

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