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Energy Policy WA
Attn: Director, Wholesale Markets
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Re: Allowable Revenue Framework Consultation Paper

Bluewaters Power welcomes the opportunity to comment on the proposed changes to AEMO's Allowable Revenue (AR) framework. Bluewaters supports changes to the AR framework that control the ever increasing costs of this market. AEMO's costs have increased by 78% over the last two years and there is no indication that costs will not continue to keep escalating. The ERA has also followed by increasing its market fees 81% this year. For the long-term interests of consumers of electricity in relation to the price of electricity, the current trajectory of ever increasing costs must be controlled, and at over \$3/MWh (nearly 3 times what Market Generators are paying for ESS), market fees are a clear factor contributing to a higher cost of electricity since consumers pay market fees twice, once through generation costs and again through retail costs.

Further below is our specific feedback to the proposals and the specific questions outlined in the consultation paper.

In addition we provide the following overarching comments:

- A new AR Framework needs to make sure that Non-BAU spend doesn't get baked into BAU cost in the following years. If this is not prevented market fees will continue to escalate.
- Consultation needs to be genuine and not performative. This would require industry having more say on what projects are and are not pursued and also stakeholder feedback be given the adequate consideration. Too often decisions are pushed through even in the face of almost unanimous objections.
- Consultation also needs to be structured and timely with market participants to assess and address the potential impacts of any proposed changes. This is particularly important given the asymmetric information held by AEMO, which can place market participants at a disadvantage in understanding the full implications of change.

- Lastly, and possibly most importantly, real consideration needs to be given to who was responsible for the increased costs to date and introduce new funding sources aside from Market Participants. The ESM rules instill ‘causer-pays’ as the basis for cost allocation. This presents an opportunity to review the allocation of market fees to ensure they are distributed equitably across all relevant participants. Such a review could consider whether current fee structures, which are tied directly to metered generation/consumption, remain appropriate in light of evolving market dynamics. By exploring alternative allocation methods, it may be possible to ensure cost recovery is fair, and avoid disproportionate impacts on specific participant groups.

Comments to Proposals

Proposal	Comments
<p>Proposal 1:</p> <p>1.1 Enhancements to strengthen reputational incentives within AEMO’s existing corporate governance framework should be considered. These enhancements will include:</p> <p>1.2 AEMO publishing audited financial accounts for Western Australia functions, separate from the aggregated organisational accounts.</p> <p>1.3 AEMO must ensure that performance indicators for key executives include explicit links to efficient financial performance and timely project delivery, using the same metrics that are published and monitored, and must publish the relevant executive performance indicators</p>	<p>Bluewaters supports enhancements to strengthen reputational incentives within AEMO’s existing corporate governance framework. The publication of WA financial accounts will be beneficial for stakeholders.</p> <p>Bluewaters supports 1.3 on the basis that the publication of ‘executive performance indicators’ is the publication of tracking performance against the indicators and not simply a publication of performance metrics without any corresponded tracking and publication of performance. However, these indicators need to be scrutinised to ensure they are not inflated in order to achieve satisfactory performance.</p>
<p>Proposal 2:</p> <p>2.1 The ERA will prepare and maintain regulatory guidelines for AEMO submission of proposed BAU expenditure.</p>	<p>Bluewaters supports the ERA’s continued involvement in preparing and maintaining regulatory guidelines for AEMO’s BAU expenditure. However, it must be emphasised that the ERA should allow Market Participants the opportunity to provide feedback on the guidelines before</p>

<p>2.2 The ERA guidelines will include definitions for BAU and non-BAU expenditure, and provide for appropriate interaction and delineation between the two.</p> <p>2.3 AEMO will prepare its funding proposals in line with the ERA guidelines.</p> <p>2.4 AEMO will consult with stakeholders in the preparation of its non-BAU budget, including through the Market Advisory Committee's (MAC's) Major Projects Working Group.</p>	<p>they are set. Additionally the guideline should be reviewed after a fixed number (2 – 3) funding proposals.</p> <p>Bluewaters supports 2.2, 2.3 and 2.4</p>
<p>Proposal 3:</p> <p>3.1 The ERA will prepare a regulatory guideline for AEMO's Project Governance Plan.</p> <p>3.2 AEMO will prepare a Project Governance Plan in line with the guideline.</p> <p>3.3 The Project Governance Plan will set out how AEMO plans, manages and reports on projects, including project governance, relevant stage gates, decision making processes and estimation methods.</p> <p>3.4 AEMO will prepare a project plan for each non-BAU project.</p> <p>3.5 AEMO will consult with stakeholders in the preparation of each project plan.</p>	<p>Bluewaters supports 3.1 on the basis that ERA provides Market Participants an opportunity to provide feedback on the guidelines before they are set. Additionally the guideline should be reviewed after a fixed number (2 – 3) funding proposals.</p> <p>Bluewaters supports 3.2 and 3.3 but wishes to put emphasis on establishing a robust change control process that is embedded in the Project Governance Plan and includes ample stakeholder consultation. This consultation should include the anticipated impact to Market Participants</p> <p>Bluewaters support 3.4 on the basis that the project plan is required to include a business case for each project with a stated benefit. These benefits should also be tracked and appear in the indicators mentioned in proposal 1.3.</p> <p>Bluewaters support 3.5 on the basis that stakeholder feedback is a determining factor if a project is to be funded or not. Since the project will be funded by market participants,</p>

	genuine consideration of market participant feedback if a project is funded or not funded is vital to ensure the project improves the market
<p>Proposal 4:</p> <p>4.1 The ERA will prepare a guideline that sets out the information required to be included in AEMO's BAU budget submission, including identification of non-BAU cost implications.</p> <p>4.2 The ERA guideline will include requirements for an overarching business plan that provides context for AEMO's expenditure, including linking expenditure to strategic goals that relate to the SEO.</p> <p>4.3 The ERA guideline will prescribe that information that AEMO would be expected to prepare in the ordinary course of its business.</p> <p>4.4 AEMO will prepare its BAU budget submission in accordance with the ERA guideline.</p>	Bluewaters Supports 4.1, 4.2, 4.3 and 4.4.
<p>Proposal 5:</p> <p>5.1. AEMO will prepare individual project plans in compliance with its Project Governance Plan.</p> <p>5.2. Individual project plans will include a description, scope and rationale of the project, total forecast budget for the duration of the project, project timelines and milestone dates, supporting information as to how the cost and timelines were determined, and the expected impact on market fees over time.</p>	Bluewaters supports 5.1 and 5.2 on the basis that the project plans also include a business case for each project with a stated benefit including the anticipated market impact.

<p>Proposal 6:</p> <p>6.1. The ERA will review AEMO's BAU expenditure proposals.</p> <p>6.2. The ERA will retain power to approve, reject or substitute proposed BAU expenditure.</p> <p>6.3. An Independent Panel will review individual project plans.</p> <p>6.4. The Independent Panel may request additional information that it requires to inform an assessment of each project plan.</p> <p>6.5. The Panel's requests must be consistent with good project management practice.</p> <p>6.6. The Panel must assess whether each proposed project plan has efficient expenditure and has appropriately identified BAU vs non-BAU components.</p> <p>6.7. The Panel must publish its assessment on each proposed project plan, including any recommendations.</p> <p>6.8. AEMO must consider and respond to Panel recommendations before approving a project plan.</p> <p>6.9. AEMO will be responsible and have the authority to approve each project plan.</p>	<p>Bluewaters supports 6.1 and 6.2.</p> <p>Bluewaters does not support 6.3; A panel required to consist of independent members will critically limit the pool of individuals available since those with the depth of required knowledge, experience and understanding are likely to be linked to a business within the market. This would not make them 'independent'.</p> <p>Secondly, independent members will not have a direct financial stake in the outcome and will participate in a process that determines the pricing of services for which they will not bear the cost.</p> <p>Bluewaters does not support 6.4 to 6.8. Further to the above comments, Bluewaters believes that this should be done but an industry panel instead of an independent panel.</p> <p>Bluewaters does not support 6.9; Non-BAU projects are a significant factor contributing to the current elevated level of Market Fees. It is inappropriate for AEMO to have sole responsibility for approving the funding of its own projects, as this presents a potential conflict of interest and lacks independent oversight. In no way should a monopoly entity have the ability to approve its own costs which are then forced upon the industry and consumers.</p>
<p>Proposal 7:</p> <p>7.1. AEMO will submit a BAU expenditure proposal for a baseline year.</p>	<p>Bluewaters supports 7.1, 7.2, 7.3 and 7.4.</p>

<p>7.2. The ERA will assess the expenditure proposal and approve baseline BAU expenditure.</p> <p>7.3. The ERA will determine an appropriate factor for annual efficiency gains to be achieved by AEMO.</p> <p>7.4. AEMO's annual BAU expenditure will be set by the approved baseline expenditure, multiplied by an appropriate indexation (similar to the transitional indexation in place today) and the efficiency factor determined by the ERA.</p>	
<p>Proposal 8:</p> <p>8.1. AEMO will submit project plans at least six months before the planned commencement of significant project activities.</p> <p>8.2. The Independent Panel will review project plans twice each year, in time for AEMO to finalise and approve project funding before the start of the project.</p>	<p>Further to the comments raised in Proposal 6, Bluewaters believes that this should be done but an industry panel instead of an independent panel.</p>
<p>Proposal 9:</p> <p>9.1. If BAU expenditure is forecast to exceed the adjusted baseline for the year by more than a 10% or \$5 million threshold, AEMO must submit new baseline BAU expenditure for ERA approval.</p> <p>9.2. If BAU expenditure is forecast to exceed the threshold only due to commissioning a specific project, and the impacts of that project are limited to specific functions, AEMO must submit a partial baseline BAU expenditure for those functions only, and the</p>	<p>Bluewaters supports 9.1 and 9.2</p> <p>Bluewaters does not support 9.3. Funds should not be spent on a project that has not been formally approved. Doing so undermines the principles of transparency, accountability and proper project governance.</p> <p>Bluewaters does not support 9.4 as proposed. There should be a cap on the number of less than \$5 million projects that can be started before approval. Bluewaters considers that while individually modest in</p>

<p>ERA is only required to review and approve costs for those functions.</p> <p>9.3. AEMO can expend funds on project estimate elaboration activities before Independent Panel review.</p> <p>9.4. For non-BAU projects less than \$5 million total cost, AEMO can begin project execution activities up to three months before the project plan has been reviewed and approved by the Independent Panel.</p>	<p>cost, a large volume of such projects can collectively result in a significant overall financial impact.</p>
<p>Proposal 10:</p> <p>10.1. If BAU expenditure is projected to differ significantly from year to year in the baseline review, AEMO must propose an annual revenue recovery adjustment mechanism that smooths the required revenue to avoid large changes from year to year.</p> <p>10.2. If new project expenditure would result in a significant step in fees, AEMO should propose a smoothed revenue recovery profile for the project expenditure. This will seek to avoid fees increasing or reducing substantially from year to year, while still recovering costs over the life of the assets.</p> <p>10.3. Under and over-recovery compared to the smoothed revenue profile can be adjusted in the following year (as is the case for market fees today).</p>	<p>Bluewaters supports 10.1, 10.2 and 10.3.</p>
<p>Proposal 11:</p> <p>11.1. AEMO will publish an annual report reviewing whole year performance for BAU activities, including comparison of budget and actual expenditure in each relevant</p>	<p>Bluewaters supports 11.1, 11.2 and 11.3</p> <p>Bluewaters does not support 11.4 and 11.5 on the basis that an industry panel would be best placed for these processes.</p>

<p>category, with detailed explanation for variations.</p> <p>11.2 AEMO will publish quarterly project reporting, including information on:</p> <ul style="list-style-type: none"> • capital projects commenced, completed, and not commenced/completed on schedule; • capital projects planned and in progress, with budget and actual spend (separated into personnel time, contractors, and asset purchases) and delivery schedule with progress against project plan milestones; • Narrative for any adjustments to project budgets (including contingency drawdowns) or delivery times. <p>11.3. AEMO must proactively share project scheduling changes with the MAC's Major Projects Working Group.</p> <p>11.4. The Independent Panel must annually review AEMO delivery against the project plans, and publish its opinion on whether AEMO has delivered on its project plans, and whether it has done so efficiently.</p> <p>11.5. The Independent Panel may compare AEMO costs against IT project cost benchmarks, and assess efficiency changes over time.</p> <p>11.6. AEMO must publish results of all audits of systems and processes, and post project reviews.</p> <p>11.7. AEMO must publish formal financial accounts for its Western Australia segment, including the methods by which it has</p>	<p>Bluewaters supports 11.6 and 11.7</p>
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allocated any portion of shared costs to its Western Australia functions.	
Proposal 12: 12.1 The Coordinator will review the Allowable Revenue Framework after at least two years of implementation, and no longer than three years after the introduction of a replacement ARF.	Bluewaters supports 12.1

Consultation questions

(1)(a) Do stakeholders consider that a review of governance arrangements for WEM and GSI functions is necessary or required?

Yes. Market Fees have vastly increased due to EPWA reforms and AEMO requirements. Causer pays principle is applied throughout the ESM rules however, no such concept exists for allocate costs of EPWA led reforms. Where EPWA is leading reforms that will lead to an increase in Market Fees then as the causer the State Government should fund the reforms.

(1)(b) Do stakeholders support the proposed approach to AEMO executive performance indicators?

The publishing of targets is useful however, it's not clear in the proposal if performance against the targets will be measured and reported. Without the reporting of performance then the performance indicators are largely meaningless and will not provide any incentive to achieve them.

(1)(c) Which (if any) of the incremental improvement options identified do stakeholders think would be effective in sharpening reputational incentives?

We considering the following suggested incentives could be effective:

- Requiring at least two AEMO board members to have an explicit objective to look after the interest of the WEM;
- Establishing a Western Australia-specific advisory board, requiring AEMO to report to the board, and/or requiring advisory board approval for certain decisions;

(1)(d) Are there other incremental improvements, not listed, which stakeholders consider may strengthen reputational incentives?

We suggest the following improvements for further consideration:

- A requirement on AEMO to demonstrate the potential and realised benefit a project has provided to market participants and/or the energy market.
- The ability for Market Participants to direct which projects AEMO to focus on.

(2)(a) Do stakeholders support separating BAU and non-BAU expenditure?

Yes, Bluewaters supports the separation of BAU and non-BAU expenditure however, the non-BAU should not be approved by AEMO, but rather the ERA. The Independent Panel should consist of industry representatives.

Question: How will EPWA and the ERA ensure that non-BAU expenditure is not inadvertently incorporated into BAU in subsequent years, potentially inflating the baseline and distorting future budget allocations? What mechanisms or review processes will be implemented to monitor and prevent such reclassification over time?

(2)(b) What stakeholder consultation should occur during preparation of the budget proposal?

Stakeholder consultation is only useful if the feedback is taken on board. Our experience with the consultation process over the last few years has been frustrating to say the least. Huge amount of resources are required to respond due to the frequency and intensity of the reforms being consulted on. Majority of the time stakeholder comments are largely ignored if they disagree with the proposed changes.

The allowable revenue framework consultation should be genuine consultation, rather than performative. One only needs to review EPWA's and AEMO's comments to stakeholder feedback to see just how much value is placed on feedback received during consultation.

(3)(a) Do stakeholders support AEMO preparation of a Project Governance Plan?

Yes, Bluewaters supports AEMO's preparation of a Project Governance Plan and emphasises the importance of embedding a change control process within it. This process should include structured and timely consultation with market participants to assess and address the potential impacts of any proposed changes. This is particularly important given the asymmetric information held by AEMO, which can place market participants at a disadvantage in understanding the full implications of changes.

(3)(b) What stakeholder consultation should occur during preparation of each project plan?

In considering the Non-BAU projects, Bluewaters considers it important to clarify whether it has the active support of stakeholders. As part of this, it should explore whether stakeholders have

suggestions for alternative approaches or differing views on the proposed budget requirements, as well as any specific ideas for improvements or enhancements to the project's design and delivery.

As mentioned previously, the Allowable Revenue framework consultation must be a genuine process of engagement, rather than a performative exercise. Stakeholder feedback should be considered seriously in shaping the project and its associated budget framework.

(4)(a) Do stakeholders believe the ERA document should serve solely as a guideline, or should its requirements be formally incorporated into the Rules?

The requirements should be formally incorporated into the ESM rules. Doing so would provide clarity to AEMO and strengthen their accountability.

(4)(b) Do stakeholders consider that AEMO's BAU submission should be supported by an overarching business plan? Do stakeholders have any comments on the content to be included in such a business plan?

Bluewaters wishes to highlight that the business plan should clearly outline how AEMO will control its expenses. AEMO's cost has a direct effect on the cost of electricity (via market fees) and under the SEO, AEMO must, as a primary concern always aim to control and minimise its costs.

(4)(c) Do stakeholders agree that the information AEMO would reasonably be expected to prepare in the ordinary course of business should be sufficient to allow the ERA to review prudence and efficiency of AEMO BAU expenditure?

Yes, Bluewaters agrees.

(5)(a) Do stakeholders agree that the form and content of individual project plans should be set by the Project Governance Plan?

Yes, Bluewaters agrees.

(5)(b) Do stakeholders agree that the content of individual project plans should include the information specified? If not, what should they include?

Individual project plans should include detailed, costed assessments of the expected benefits (and potential detriment) to market participants, along with the anticipated payback period. They should also set out the projected impact on market fees, as well as a comprehensive review of alternative options considered, each with associated costings.

(6)(a) Do stakeholders support the proposed assessment and approval process?

No, AEMO should not act as the approver; this role should instead rest with the ERA to ensure independence and regulatory oversight.

The assessment process should not be given to an Independent Panel that has no direct accountability, responsibility or exposure to the outcomes and instead should be by an industry panel.

(6)(b) Do stakeholders agree with the proposed role of the Independent Panel?

Having a truly independent panel will critically limit the pool of individuals available since those with the depth of required knowledge, experience and understanding are likely to be linked to a business that would be affected by Market Fees.

Secondly, independent members will not have a direct financial stake in the outcome and will participate in a process that determines the pricing of services for which they will not bear the cost.

(7)(a) Do stakeholders support the proposed funding period for BAU expenditure?

Yes, Bluewaters believes a shorter funding period as proposed is an improvement on the current process.

(7)(b) Do stakeholders support the proposed indexation of BAU expenditure to reflect changes in underlying costs?

Tentative support is offered, however, further clarity is needed on how the initial BAU will be established and what measures will be taken ensure inefficiencies are not embedded into the BAU that is then indexed.

(7)(c) Do stakeholders support the proposed indexation to include an assumed efficiency gain?

Bluewaters requests more detail on this prior to commenting.

(8)(a) Do stakeholders support the proposed funding period for non-BAU expenditure?

Yes, Bluewaters supports the proposed funding period.

(8)(b) Do stakeholders support the twice per year review by the Independent Panel?

Refer to (6)(b)

(9)(a) Do stakeholders agree that uncertainty measures are not required for non-BAU expenditure?

Yes, Bluewaters believes this would ultimately increase the cost of each project and in turn, Market Participants.

(9)(b) Do stakeholders support the proposed measures to manage uncertainty in BAU expenditure?

Yes, Bluewaters agrees.

(10)(a) Do stakeholders support the proposed approach to reducing volatility in market fees?

Yes, Bluewaters agrees.

(10)(b) Do stakeholders have preferred maximum level of advancement or delay in cost recovery?

No set view on this question at this stage of this review.

(11)(a) Do stakeholders support the proposed reporting approach?

Yes, Bluewaters agrees.

(11)(b) Do stakeholders support the proposed independent review of AEMO performance?

Refer to (6)(b)

(12)(a) Do stakeholders support a post-implementation review and the suggested timing?

Yes, Bluewaters agrees.

(12)(b) Do stakeholders support a one-off post-implementation review (rather than a recurring review, for example every 5 years)

Yes, Bluewaters agrees.

Should EPWA wish to discuss any of these points further, please contact Bobby Ditric

[Redacted]

Yours Sincerely,

[Redacted]

Bobby Ditric

Executive General Manager – Trading, Commercial and Regulatory