

To energymarkets@deed.wa.gov.au
Subject AEMO Allowable Revenue Framework Review
Date 13 August 2025

Good Afternoon

Thank you for the opportunity to comment on the AEMO Allowable Revenue Framework Review Consultation Paper. Perth Energy has a substantial gas and electricity retail operation and has been concerned at the unexpected increases in market fees required to fund AEMO's operations over the past three years. These have made it difficult to provide firm tariffs to our customers seeking certainty over energy purchase contract lives.

Perth Energy therefore welcomes the proposals provided within this consultation paper. Energy Policy WA has clearly listened to ours, and others, concerns to bring forward a practical and cost-effective set of processes. Below we have addressed the specific proposals.

Proposal 1: Incentives and penalties

1.1 Enhancements to strengthen reputational incentives within AEMO's existing corporate governance framework should be considered.

1.2 AEMO publishing audited financial accounts for Western Australia functions, separate from the aggregated organisational accounts.

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.

Consultation questions

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

Yes. The current arrangement is not perceived to be working. A much higher degree of trust needs to be developed between AEMO and the rest of the market.

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

Yes. This will clarify the expectations that are placed on AEMO and its performance

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

The emphasis on increasing transparency is important because it will highlight those factors which are of interest to market participants. This will ensure that AEMO and other market entities are putting emphasis on a set of issues which are broadly agreed across the market.

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

Quarterly update summaries may be useful but these should not impose a significant administrative burden on AEMO.

Proposal 2: Preparation process – BAU expenditure

2.1 The ERA will prepare and maintain regulatory guidelines for AEMO submission of proposed BAU expenditure.

2.2 The ERA guidelines will include definitions for BAU and non-BAU expenditure, and provide for appropriate interaction and delineation between the two.

2.3 AEMO will prepare its funding proposals in line with the ERA guidelines.

2.4 AEMO will be required to consult with stakeholders during the preparation of its non-BAU budget, including through the Market Advisory Committee's (MAC's) Major Projects Working Group.

Consultation questions

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

Yes, this is a very practical approach which should allow preparation and monitoring of different budget areas to be appropriately focused.

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

A reasonably detailed initial BAU budget should be prepared and made available for discussion to ensure that AEMO and other market entities are aligned on the scope and costs of BAU functions. Something akin to a consultation paper would be appropriate given that this will be the baseline for ongoing budget determination. Preparing a formal document will also help AEMO internally review its BAU roles, staffing and budgets.

Proposal 3: Preparation process – non-BAU expenditure

3.1 The ERA will prepare a regulatory guideline for AEMO's Project Governance Plan.

3.2 AEMO will prepare a Project Governance Plan in line with the guideline.

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.

3.4 AEMO will prepare a project plan for each non-BAU project.

3.5 AEMO will consult with stakeholders in the preparation of each project plan.

Consultation questions

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

Yes. The plan should ensure that governance is tailored to the scale and scope of the proposed project so that the associated overhead, in both AEMO's and other market entities' time and costs, is appropriate.

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

This should be tailored to the scale and scope of the project. A small project might just be run through the Major Projects Working Group whereas a more significant project may need more extensive formal consultation. The process for changes to Market Rules and Procedures could be a good basis though timeliness will be important to allow AEMO adequate time to implement projects.

Proposal 4: Content - BAU

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.

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.

4.3 The ERA guideline will prescribe that information that AEMO would be expected to prepare in the ordinary course of its business.

4.4 AEMO will prepare its BAU budget submission in accordance with the ERA guideline.

Consultation questions

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

Perth Energy considers that it is really important that the proposed new approach is seen to be strong and that it delivers on market participants' expectations. For this reason, we consider that the requirements should be formally written into the rules so that there is no opportunity for either AEMO to not comply or for other entities to demand more.

(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?

Yes. The business plan will provide market participants with a sound understanding of AEMO's philosophies in respect to staffing, operations, IT support and other key cost drivers.

(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?

Most of the information to be included in a business plan is probably already available. However, some policies or information on AEMO's operating approach may not be explicitly written down. It may assist AEMO, as well as market participants, for this to be formally documented.

Proposal 5: Content – non-BAU

5.1 AEMO will prepare individual project plans in compliance with its Project Governance Plan.

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.

Consultation questions

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

Yes

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

Yes. We suggest that the content should also include information on staffing such as whether this will be undertaken by existing or new AEMO staff, or by contractors. Given the importance of IT systems to AEMO, any such projects should indicate how they align with AEMO's longer term IT strategy.

Proposal 6: Assessment and approval Process

6.1 The ERA will review AEMO's BAU expenditure proposals.

6.2 The ERA will retain power to approve, reject or substitute proposed BAU expenditure.

6.3 An Independent Panel will review individual project plans.

6.4 The Independent Panel may request additional information that it requires to inform an assessment of each project plan.

6.5 The Panel's requests must be consistent with good project management practice.

6.6 The Panel must assess whether each proposed project plan has efficient expenditure and has appropriately identified BAU vs non-BAU components.

6.7 The Panel must publish its assessment on each proposed project plan, including any recommendations.

6.8 AEMO must consider and respond to Panel recommendations before approving a project plan.

6.9 AEMO will be responsible and have the authority to approve each project plan.

Consultation questions

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

Yes. This provides a good opportunity for AEMO and the ERA to carefully review the BAU processes and resulting expenditures.

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

Yes.

Proposal 7: Funding Period – BAU expenditure

7.1. AEMO will submit a BAU expenditure proposal for a baseline year.

7.2. The ERA will assess the expenditure proposal and approve baseline BAU expenditure.

7.3. The ERA will determine an appropriate factor for annual efficiency gains to be achieved by AEMO.

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.

Consultation questions

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

Yes.

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

Yes.

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

Yes.

Proposal 8: Funding period – non-BAU

8.1. AEMO will submit project plans at least six months before the planned commencement of significant project activities.

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.

Consultation questions

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

Yes. Non-BAU expenditure would need to be forecast out to the end of the project to ensure that AEMO can develop smooth fee levels.

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

Yes.

Proposal 9: Treatment of uncertainty

9.1 If BAU expenditure is forecast to exceed the adjusted baseline for the year by more than a 10% or \$5 million threshold for the WEM, or 10% or \$0.25 million threshold for the GSI, AEMO must submit new baseline BAU expenditure for ERA approval.

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 ERA is only required to review and approve costs for those functions.

9.3 AEMO can expend funds on project estimate elaboration activities before Independent Panel review.

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.

Consultation questions

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

We note that AEMO would be allowed to commence work on non-BAU projects costing less than \$5 million up to three months before review and approval by the Independent Panel. Where would the money come from to initially undertake this work?

We also question how AEMO would fund the initial analysis, and preparatory work, required to develop major projects that are to be taken to the Independent Panel. Should there be some allowance for this as part of BAU expenditure or would AEMO be allowed to undertake this preparatory work and then claim it back after the project has been formally approved?

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

Yes, these appear to be sound.

Proposal 10: Treatment of volatility

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.

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.

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).

Consultation questions

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

Yes, we see this as a critical issue. Rising electricity prices are causing considerable public concern. While these are unlikely to be avoidable, ensuring that customers are advised in advance as to expected price rises, and avoiding unexpected increases, is critical.

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

This level should be set such as to ensure that year-on-year cost changes are minimised. If AEMO's costs fall in any year due to a reduction in non-BAU activity, it may be appropriate for AEMO to hold fees steady and build up a small reserve to cover future increases.

Proposal 11: Monitoring and reporting

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 category, with detailed explanation for variations.

11.2 AEMO will publish quarterly project reporting, including information on: – 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.

11.3 AEMO must proactively share project scheduling changes with the MAC's Major Projects Working Group.

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.

11.5 The Independent Panel may compare AEMO costs against IT project cost benchmarks, and assess efficiency changes over time.

11.6 AEMO must publish results of all audits of systems and processes, and post project reviews.

11.7 AEMO must publish formal financial accounts for its Western Australia segment, including the methods by which it has allocated any portion of shared costs to its Western Australia functions.

Consultation questions

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

Yes. The proposed level of reporting is comprehensive but should be achievable at minimal cost if AEMO has appropriate accounting systems.

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

Yes. This is essential to provide sound feedback to both market participants and to AEMO itself.

Proposal 12: Post-implementation review

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.

Consultation questions

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

Yes, we support a review after 2-3 years of operation to assess the effectiveness of the proposed changes and consider any improvements. It may be appropriate to consider minor tuning during this period if AEMO and the ERA considers this to be beneficial.

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

While a review undertaken after 2-3 years will be very important to assess how the proposed changes are working, we consider that a further review, maybe after a subsequent 4-5 year period, would be beneficial. This later review would allow AEMO's performance over several non-BAU projects to be reviewed rather than just those assessed in the first review.

Should you have any questions please do not hesitate to contact me at

[REDACTED]. This submission may be made public.

Kind regards

[REDACTED]

Patrick Peake

Senior Manager WA EMR

m: [REDACTED]

e: [REDACTED]

I am based in the Perth Office and work Tuesday, Wednesday and Thursday