

15 November 2016

Ms Elizabeth Walters
Assistant Director, Assess and Inquiries
Economic Regulation Authority
Level 4, Albert Facey House
469 Wellington Street
Perth WA 6000

Dear Ms Walters

RESPONSE TO ISSUES PAPER - ALLOWABLE REVENUE AND FORECAST CAPITAL EXPENDITURE FOR THE AUSTRALIAN ENERGY MARKET OPERATOR 2016/17 – 2018/19

NewGen Power Kwinana (NPK) welcomes the opportunity to provide comments on the paper entitled “Issues Paper - Allowable Revenue and Forecast Capital Expenditure for the Australian Energy Market Operator 2016/17 – 2018/19” ([Issues Paper](#)). This paper was published by the Economic Regulation Authority (Authority) on 27 October 2016.

NPK notes that Authority will conduct a review of the [allowable revenue proposed by AEMO](#). One of the objectives of this review is as set out in MR 2.22A.11(b). That is, seeking to achieve the lowest practicably sustainable cost of delivering the AEMO's services.

Benchmarked against the NEM

MR 2.22A.11(c) states that “where possible, the Economic Regulation Authority should benchmark the Allowable Revenue and Forecast Capital Expenditure against the costs of providing similar services in other jurisdictions”. It is noted that the market fee per unit of electricity consumption in the WEM for 2016/17 is \$1.892/MWh¹. This rate is high when benchmarked against that in the NEM of \$0.39/MWh².

NPK considers the proposed adoption of the AEMO's NEM's system and processes (under the Electricity Market Review) to be an opportunity to narrow this rate gap. NPK anticipated that this can be achieved by taking advantage of the merger efficiencies between the NEM and WEM operations. Instead, NPK observes that the rate gap may become even larger when the new energy market arrangement begins in year 2018 if the proposed allowable revenue is approved.

In order to achieve the lowest practicably sustainable cost, NPK recommends that the Authority seeks to narrow the rate gap to the maximum extent possible. This can be achieved by the Authority seeking opportunities to further reduce duplications of functions (and costs) between the NEM and the WEM operations (in addition to what have already been proposed by the AEMO).

¹ AEMO, Western Australian Functions – Budget and Fees 2016/17, <https://www.aemo.com.au/About-AEMO/~/-/media/52A2D69D4F9B46AC82FA012B70700CE9.ashx>. The stated Market Fee Rate is payable by generators as well as Market Customers. Hence, the fee per unit of Market Customer consumption is double of the stated rate.

² Electricity Final Budget and Fees: 2016-17, section 1.2, <http://wa.aemo.com.au/-/media/Files/PDF/1617--FINAL-Electricity-Budget-and-Fees-Report.pdf>

To the extent that there is any unavoidable rate gap between the WEM and the NEM, NPK requests that it be meaningfully and comprehensively justified in the Authority's determination of the AEMO's allowable revenue.

IT technology architecture

NPK notes that a significant amount of AEMO's proposed capital expenditures relates to the cost of adopting AEMO's systems and processes in the NEM. This includes the cost of adopting the NEM's IT technology architecture.

NPK consider AEMO's choice of the IT technology architecture is not likely to deliver "costs which would be incurred [only] by a prudent provider" as required under MR 2.22A.11(b).

It is understood that the IT technology architecture currently in place in the WEM is more advanced compared to that in the NEM. Hence, it is NPK's view that this proposed adoption may represent a step backwards in technology. NPK considers it will not be prudent³ to require Market Participants to fund this technology downgrade, and to potentially re-upgrade in the future to the technology we currently already have. It is NPK's view this needs to be taken into account in the Authority's assessment of the proposed allowable revenue.

It should also be noted that the proposed technology architecture change, if implemented in the WEM, is likely to:

- a) compromise the reliability of the connectivity between the IT systems of Market Participants and AEMO. This would increase the Market Participants' IT failure risks; and
- b) require Market Participants to increase their IT infrastructure investments to secure connectivity to the AEMO's IT system.

Other fees

The allowable revenue as proposed by AEMO only relates to "Market Operations" and "System Management". It is understood that these do not represent the full set of fees payable by WEM's Market Participants. Notably, the Regulator Fees is outside the scope of this allowable revenue determination.

NPK would like to better understand the impact of the Authority's expanded roles (under the EMR) on the Regulator Fees. NPK requests that the Authority provides clarity on this matter at its earliest convenience so that the expected fees impacts can be assessed by Market Participants in a timely manner.

Yours Sincerely



Andrew Sutherland, CEO

³ Under MR 2.22A.11(b), one of the factors the Authority must take into account when determining AEMO's Allowable Revenue and approving Forecast Capital is that "the Allowable Revenue and Forecast Capital Expenditure must include only costs which would be incurred by a prudent provider...".