

18 April 2019

Ms Nicola Cusworth
Chair
Economic Regulation Authority
Level 4, 469 Wellington Street
PERTH WA 6000

Via email: Public.Submissions@erawa.com.au



Chamber of Commerce
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Dear Ms Cusworth

AEMO 2019-2022 ALLOWABLE REVENUE AND FORECAST CAPITAL EXPENDITURE

The Chamber of Commerce and Industry of Western Australia (CCIWA) welcomes the opportunity to comment on the Australian Energy Market Operator's (AEMO) allowable revenue and forecast capital expenditure proposal for the period 2019-20 to 2021-22 (AR5 period).

CCIWA is Western Australia's leading business association and has been the voice of business for more than 125 years. We represent employer members from across all regions and industries in the State, including Wholesale Electricity Market (WEM) participants, large energy users and small-to-medium enterprises (SMEs). Keeping downward pressure on energy costs is a high priority for our members and is crucial to ensuring Western Australian businesses remain competitive.

In its AR5 proposal, AEMO's capital expenditure requirements for the WEM are forecast to increase from \$29.3 million for the AR4 period ending 30 June 2019 to \$77.3 million for the AR5 period. This is a substantial increase in AEMO's expenditure, which will primarily be funded by increases in fees imposed on market participants. In turn, market participants will be forced to pass on these additional costs to energy users, especially businesses. A market where most energy is bilaterally contracted between participants and that is experiencing substantial year-on-year declines in total operational demand should not be getting more expensive to administer.

CCIWA notes that most of the additional costs are being driven by government policy, with AEMO requesting \$51.2 million for the design and implementation of systems and functions to support the State Government's Constrained Network Access and WEM reform program. It is concerning that energy users are expected to pay for market reforms that have been initiated by government policy. This approach is inconsistent with that of other jurisdictions and policy agencies in Australia. It is our view that market reforms, especially early analysis and policy development work, should be paid for by government.

There needs to be a clearer delineation between the cost of designing and developing government policy and costs associated with the effective operation on the WEM. This could be achieved through a review of fee allocations in the WEM, which would be appropriate considering the current and proposed reform programs of government will likely substantially change the cost structure of the WEM. Such a review could also help to address the issue of increasing fees on a per megawatt-hour basis to compensate for declining total operational consumption in the WEM.



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AEMO has expressed a preference for a single capital expenditure determination covering the whole AR5 period, as opposed to the incremental approach applied during the previous AR4 period. This is despite AEMO acknowledging that it is yet to complete the detailed design of the reformed WEM and the systems and processes required to support it. CCIWA questions the need for AEMO to be approved funding to implement systems and processes that have not been designed yet. An incremental approach to approving capital expenditure would provide more certainty about the cost of reforms as the associated analysis and design work progresses.

AEMO is also anticipating that the costs associated with the State Government's Energy Transformation Strategy, including a Whole of System Plan and Distributed Energy Resources (DER) Roadmap, will need to be covered by its allowable revenue in future. This assumption is based on the Ministerial correspondence provided as Attachment 1 to AEMO's AR5 proposal suggesting the State Government intends to impose the cost of these reforms on market participants. This will further add to costs for energy users.

CCIWA acknowledges the need for reform in response to the changing nature of the electricity sector, especially the increasing presence of intermittent renewable energy generation and distributed energy resources in the South West Interconnected System. However, market participants should not be expected to fund the design and planning of market reforms that are the result of a directive of government. Given Western Australia's recent history of spending substantial resources on reforms that were never implemented, government should carry the risk and cost associated with the design and development of a reform program that it ultimately has responsibility for implementing.

CCIWA understands that the ERA might be constrained by the Market Rules, which the State Government has unilaterally amended so that it has the power to impose reform costs on market participants. However, it is important that the issue of escalating energy costs is brought to your attention.

I trust that these comments will be of assistance as the ERA considers AEMO's proposal. I welcome the opportunity to discuss CCIWA's concerns further. If you would like to discuss this matter further, please contact Policy Manager, Justin Ashley by telephone on [REDACTED] or by email at Justin.Ashley@cciwa.com.

Yours sincerely

Chris Rodwell
Chief Executive Officer