



Notice

8 May 2019

Australian Energy Market Operator's funding for 2019/20 to 2021/22

Invitation for public submissions

The ERA has published a [draft decision](#) on a proposal from the Australian Energy Market Operator (AEMO) for its funding for the three years to 30 June 2022. The ERA is responsible for approving this funding, which is sourced from market participants through fees.

Interested parties have until 31 May 2019 to comment on the ERA's draft decision. The final decision must be made by 14 June 2019.

Wholesale electricity market

For its activities in the Wholesale Electricity Market (WEM), which include operating the electricity market and capacity mechanism and preparing for and implementing market reforms, AEMO proposed allowable revenue of \$98.3 million and forecast capital expenditure of \$77.2 million.

Under the Wholesale Electricity Market Rules, the ERA can approve only costs that would be incurred by a prudent provider, acting efficiently, seeking to achieve the lowest practicably sustainable cost of delivering the services.

After reviewing the proposal, the ERA has approved AEMO's WEM allowable revenue in principle. Adjustments will be required to allowable revenue in the final determination to reflect capital funding not approved.

The ERA proposes approving \$20.8 million (or 27 per cent) of AEMO's proposed forecast capital expenditure for the WEM at this stage.

The draft decision is to not approve full funding for AEMO's two largest capital projects: WEM reform and the digital roadmap project. Together, these two projects comprise 83 per cent of forecast capital expenditure.

The ERA has not approved any funding for the digital roadmap. This is a project to gradually replace existing standalone Information Technology (IT) systems and provide a common centralised and secure platform on which to build all future IT infrastructure. AEMO has provided only high-level information on this project, and has made assumptions that may not be realised about the applicability to the WEM of initiatives in the National Electricity Market. At this stage, the ERA does not have enough information to be satisfied that the digital

roadmap demonstrably meets the requirement of the market rules that this expenditure is what would be incurred by a prudent service provider seeking to achieve the lowest practicably sustainable costs of delivering the services.

Similarly, the WEM reform project is at an early stage of development. The timing of AEMO's funding submission is such that it had to estimate the cost of procuring and implementing the new IT systems necessary to support a new electricity market design before those systems have been designed. The ERA has approved capital expenditure of \$13.8 million in the draft decision paper, for all 2019/20 WEM reform expenditure and the core WEM reform team to operate for the remaining two years. Approving this capital expenditure funding should provide AEMO with sufficient certainty to proceed with market reform designs.

The ERA's decisions on WEM reform and the digital roadmap will not prevent AEMO from undertaking these projects. AEMO can request additional funding to procure and implement them once it is in a better position to provide cost estimates that meet the funding requirements in the Market Rules.

The ERA has also not approved AEMO's approach to contingencies. AEMO has applied an average 30 per cent contingency to each of its 22 capital projects, equivalent to \$17.9 million over the three years. Project contingencies are margins over the estimated cost of the project AEMO applies to account for project risks, complexity and uncertainty. However, the Market Rules already contain a mechanism for AEMO to spend 10 per cent above its approved capital expenditure before it needs to apply to the ERA for additional funding. This mechanism can provide contingency expenditure for capital projects that have risks which cannot be explicitly identified.

The ERA assessed each of the remaining capital project individually and approved the proposed funding for just over half of the projects.

Gas market

AEMO has far fewer activities in the gas market than the electricity market. AEMO proposed allowable revenue of \$5.9 million and forecast capital expenditure of \$1.3 million for the gas market.

The ERA's draft decision is that the allowable revenue meets the funding criteria and again approved it in principle. Most forecast capital expenditure is for the gas market allocation of digital roadmap costs and so has not been approved, in line with the electricity market decision.

Invitation for submissions

The ERA invites interested parties to make submissions on the [draft report](#).

Submissions close 4:00 pm (WST) Friday, 31 May 2019.

Submissions should be lodged online using the form on our website www.erawa.com.au/consultation.

Further information

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