

31 May 2019

Ms Sara O'Connor
Economic Regulation Authority
Submission by email: publicsubmissions@erawa.com.au

Dear Ms O'Connor

RESPONSE TO DRAFT DECISION – ‘AEMO ALLOWABLE REVENUE AND FORECAST CAPITAL EXPENDITURE PROPOSAL FOR THE 2019/20 TO 2021/22 PERIOD (AR5)’

NewGen Power Kwinana (NPK) welcomes the opportunity to provide comment on the Authority's draft decision to the above AR5 review (Review). NPK values both the Authority's discussion forum on the Review and the early publishing of AEMO's response to its draft decision.

NPK acknowledges the effort from AEMO to provide additional detail to support its funding request, especially under circumstances where it cannot fully scope its requirements. However, NPK maintains its in-principle agreement with the Authority's draft decision.

Electricity reform has a poor record of achievement in WA over recent years, with often significant costs being incurred without reforms being implemented. Even now, government is restructuring its reform delivery approach and seemingly reprioritising its agenda. This, coupled with a new approach to funding reform from market participants¹ which greatly increases the costs to participants (and ultimately consumers), suggests that a prudent approach to approving uncertain expenditure is warranted. The capital expenditure for WEM reform should be approved periodically over AR5 as certainty of expenditure is improved.

NPK also agrees with the caution applied to funding the IT digital roadmap project noting the Authority's position in its draft decision that it must approve:

...only those costs “which would be incurred by a prudent provider of the services”, acting efficiently and “seeking to achieve the lowest practicably sustainable costs of delivering the services”

The WEM is a small, isolated and simplistic market when compared to the NEM. AEMO's requirements to operate the more complex NEM are likely to be far more substantial than that required to operate the WEM, where only a handful of generators (and even fewer participants) actively compete to provide services. It is not clear that funding the WEM's per-capita contribution to AEMO's digital roadmap project provides the “lowest practicably sustainable costs of delivering services”. The benchmark for understanding IT and system costs going forward should be made against the costs of a prudent operator managing the WEM in isolation at the lowest sustainable cost. The decision, made by the previous government, to replace the IMO with AEMO should not impact the obligation of the Authority in this regard. If AEMO, given its existing operations and systems in the NEM, is best able to deliver WA operations at lowest cost by leveraging NEM systems (via its digital roadmap), but those costs are higher than a standalone prudent operator of the WEM might incur, then it is more appropriate that AEMO recovers the difference in its costs

¹ NPK maintains that a review of fee allocation, agreed in-principle by the PUO, should be progressed as a matter of urgency in order to better inform participants and consumers of the future costs of operating the WEM.



NewGen Power

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under its agreement with government to be kept whole, rather than inefficiently from market participants (and ultimately consumers).

Should you have any questions regarding this submission please contact Daniel Kurz on [REDACTED] or [REDACTED].

Yours sincerely

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