



1 March 2022

Our Ref: CWF-20220301

Ms Jenness Gardner
Chief Executive Officer
Economic Regulation Authority
Level 4, 469 Wellington Street
PERTH WA 6000

Attention: Sara O'Connor

Dear Ms Gardner

RE: SUBMISSION ON AUSTRALIAN ENERGY MARKET OPERATOR ALLOWABLE REVENUE AND FORECAST CAPITAL EXPENDITURE 2022/23 – 2024/25 ISSUES PAPER

Thank you for the opportunity to comment on the ERA's Issues Paper on the Australian Energy Market Operator's (AEMO) Allowable Revenue and Forecast Capital Expenditure 2022/23 – 2024/25 (AR6) submission.

Collgar Wind Farm (Collgar) is concerned about the substantial increase in AEMO's proposed expenditure for the AR6 period and the subsequent increase in Market Fees for the Wholesale Electricity Market (WEM). Market fees currently represent almost eight per cent of Collgar's total costs. AEMO's proposed revenue and capital expenditure will lead to Market Fees accounting for over 12 per cent of Collgar's total costs, and about 16 per cent of total costs if the \$60 million additional capital costs are approved and incurred.

This is a substantial proportion of Collgar's costs and does not include other regulatory costs such as network charges, ancillary services cost recovery, compliance expenses or staff for regulatory functions. Overall, the highly regulated nature of the WEM has already imposed material cost on Market Participants.

Collgar understands AEMO has a substantial reform program to undertake, including wholesale changes to the WEM and implementation of its actions for the Distributed Energy Resources (DER) roadmap. Collgar supports the reform program and it is essential that AEMO is adequately resourced for reform implementation, but it must also be subject to the same fiscal constraints faced by Market Participants.

As an example, Collgar has 14 staff, only one of whom is dedicated to undertaking market operation and trading activities, ensuring regulatory compliance, participating in reform and other working groups, preparing submissions, implementing the WEM and other reforms, and supporting staff with regulatory matters. Additional Market Fees will further constrain the resources Market Participants have available for their own activities, including reform implementation. This could risk

Market Participants not being prepared for the new WEM Commencement Date or other regulatory deadlines.

It is essential that the ERA is satisfied that AEMO's proposed resourcing is at an efficient level and fit for purpose. Benchmarking should include comparisons with the private sector, not just broader AEMO and government entities. AEMO must also demonstrate its chosen implementation methods are the best value, fit for purpose and not unduly conservative.

Collgar acknowledges there is uncertainty around future policy decisions and the resources AEMO requires to implement these, and this presents substantial challenges in forecasting workflows, resources and budgets. Given this, Collgar supports the approach to having an additional pool of funds for these activities. However, this should only be able to be accessed if and when these activities eventuate and should be subject to the same regulatory oversight.

A potential governance reform could be that this funding is approved in the original submission subject to a trigger being met (for example, a letter from the Coordinator of Energy or the ERA indicating that the policy decision has been made and the expenditure can be incurred). This should save on additional regulatory process (and cost) for in-period submissions and allow for swift implementation.

Any contingency funds must only be used for approved projects and minor *ad hoc* expenses, and not for substantial projects that were not approved in the original submission.

Future allowable revenue and forecast expenditure submissions (AR7 and beyond) ought to be compared to the business-as-usual costs in previous submissions, excluding reform-related costs. That is, the AR6 expenditure should not become the new baseline – any new reforms should be considered on their own merit and not against a baseline of previous reform expenditure. This will assist mitigate expenditure creep.

Increases to Coordinator and Regulator Fees will further add to the Market Fee expenses borne by Market Participants. Regulator Fees have increased beyond CPI or the wage-price index (albeit significantly less than AEMO's fees). Further, there is limited oversight of Coordinator Fees to ensure they are at an efficient level and do not incrementally include additional costs – the Coordinator's functions in the WEM Rules are broad and could enable additional costs to be transferred from the consolidated fund to Market Fees. This will add further cost pressure for Market Participants.

It is also critical that Market Fees and other WEM-related costs are considered in the development and implementation of any market power mitigation regimes to ensure that Market Participants have opportunity to recover their efficient (plus mandatory regulatory) costs.

Collgar is available to discuss any of the above in more detail as required.

Yours sincerely



REBECCA WHITE

REGULATORY AND TRADING MANAGER