



28 April 2022

Our Ref: CWF-20220428

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

Attention: Sara O'Conner

Dear Ms Gardner

RE: SUBMISSION ON ERA'S DRAFT ALLOWABLE REVENUE 6 DETERMINATION

Thank you for the opportunity to comment on the ERA's draft determination on the Australian Energy Market Operator's (AEMO) proposed allowable revenue and forecast capital expenditure for 2022-23 to 2024-25 (AR6).

Collgar agrees with the ERA's assessment that AEMO has not adequately justified some of its expenditure. Collgar acknowledges that AEMO must implement reform as required by the Wholesale Electricity Market (WEM) Rules, and it is not its role to undertake a cost-benefit analysis of policy decisions¹. However, in some cases AEMO has not sufficiently demonstrated that it is implementing these projects in the most prudent and efficient way. It is also concerning that the ERA found there is substantial information provided by AEMO that does not reconcile.

Collgar encourages the ERA to further consider the efficiency of expenditure in AEMO's proposal and whether additional cuts are warranted. Collgar estimates that despite the ERA not approving some items in AEMO's proposal, Market Fees will still account for 10 per cent of Collgar's costs, which is only a two-percentage point decrease from the original proposal. Market Fees may still be as high as 14 per cent of Collgar's costs if the additional \$52 million capital costs are approved.

Collgar does not consider that AEMO should cut services to Market Participants to decrease expenditure. Rather, in line with the regulatory framework, AEMO ought to ensure projects are only undertaken if beneficial for the market, and that expenditure incurred for those projects is efficient.

Collgar has the following specific comments regarding the ERA's draft determination and matters for further consideration.

¹ Unless requested by EPWA through the policy-development process.

Efficiency of costs

In general, the ERA's findings around the governance processes and approach to top-down scrutiny does not provide confidence that AEMO can ensure that expenditure is prudent and efficient.

Labour

Collgar supports the ERA's conclusion that a substantial portion of AEMO's labour costs have not been justified. It is concerning that AEMO has not provided complete information on its standing workforce and reallocations for reform.

Further, it is not clear that AEMO has rationalised staff that may no longer be required due to the reforms and/or increased automation, supported by the ERA's example of AEMO's market operation team. Collgar's general observation is that AEMO is well staffed compared to most other organisations in the sector.

IT systems

Collgar supports the ERA's recommendation that AEMO provides more transparency around its critical decision-making, including decisions to build custom IT systems inhouse. AEMO must justify the substantial increase in IT staff, including those engaged during the AR5 period despite not being approved by the ERA. In the case some of these staff are required to support IT capital projects, it is unclear why all would be required for operational phases (for example, from mid 2024 onwards once the new WEM has commenced and bugs have been addressed).

Scope of costs

WEM Reforms

It is concerning that AEMO substantially underestimated WEM reform costs in its AR5 submission. This has put the ERA in a challenging position because, as it notes, it has approved the capital cost for the eight WEM reform projects because not doing so risks delivery of the WEM reform program. This approach undermines the regulatory process as the ERA is no longer considering whether the investment is prudent and efficient, but rather that it is needed to continue with the previously selected delivery path.

However, Collgar acknowledges that it can be challenging for AEMO to estimate costs for projects that were not fully defined. There may be opportunity for AEMO and the ERA to work with EPWA through Project Eagle to consider whether alternative governance arrangements may better support estimation and approval of future reform-related costs. For example, there may be value in EPWA having to undertake business cases for certain policy decisions that will require substantial implementation effort by AEMO. This will provide AEMO greater certainty of project scope and cost.

Five-minute settlement

AEMO states that the cost of some of its systems for market start will be expended over only three years because they will need to be replaced or significantly modified to implement five-minute

settlement. Collgar does not support approving funding for IT systems for market start that will be obsolete in three years.

Collgar considers that AEMO ought to have scoped the design of its systems so that functionality for five-minute settlement can be added at least cost, rather than needing substantial rework. While the WEM Rules have not yet been amended to include this requirement, there is a clear, documented policy decision that five-minute settlement will commence on 1 October 2025. Further, amendments to the Electricity Industry (Metering) Code have been made to require Western Power to commence works, including metering and IT upgrades, to implement five-minute settlement.

Given this, there is a clear mandate for five-minute settlement and hence AEMO ought to be designing its systems with these future requirements in mind.

Regardless of integration with other systems, Collgar considers AEMO ought to be well advanced in its planning to implement five-minute settlement as system development can take substantial time. Given this, it isn't clear why AEMO has not included five-minute settlement in its proposal and why it is not working to deliver an integrated package of IT systems (including requirements for market start and five-minute settlement) in the interest of implementing the least cost solution that requires minimum rework.²

Collgar acknowledges this is a challenging situation for both the ERA and AEMO because expenditure can only be justified if it is required by the WEM Rules. However, Collgar considers that implementation of five-minute settlement can reasonably be considered a function of AEMO under clause 2.1A.2(II) of the WEM Rules.

Distributed Energy Resources

Collgar has concerns that costs for AEMO's implementation of the Distributed Energy Resources (DER) Roadmap are being levied on existing Market Participants. Consistent with the approach applied to transmission-connected generators and loads, a user/causer pays approach ought to be applied to recovering DER costs. Collgar understands that when DER users become Market Participants they will contribute to funding market costs via Market Fees, however there will be substantial capital cost expended in the interim, and it would be inappropriate to levy this on existing Market Participants.

Despite this, Collgar acknowledges that implementing the DER roadmap is a function of AEMO per clause 2.1A.2(II) of the WEM Rules and therefore the ERA is likely required to approve prudent and efficient expenditure for this purpose. Collgar supports further consideration of how DER implementation costs are recovered through the Market Advisory Committee (MAC) Cost Allocation Sub-committee and other forums as appropriate.

However, regardless of how DER costs are recovered, Collgar agrees with the ERA's conclusion that it isn't appropriate to approve costs for AEMO to develop a trial for the distribution services market. This is because this trial may not be required depending on the outcomes of Project

² Collgar is not suggesting that five-minute settlement functionality is to be ready for market start. But rather than the system functionality required for five-minute settlement should form part of an integrated IT project that has staged delivery over time. This is opposed to an IT project for market start, with a subsequent project for five-minute settlement that, as AEMO states, will make previous work obsolete.

Symphony and other DER projects. Collgar supports this funding being approved if the ERA can provide a caveat the funding is only available should the trial project be reasonably required.

Further, Collgar is concerned that projects not approved in AEMO's AR5 submission were undertaken during the AR5 period using funding from projects that were completed under budget or not commenced and contingency funding. While this may be permitted under the WEM Rules, it raises questions around the effectiveness of the regulatory process, especially if AEMO, through AR6, is given additional funding for projects that had funding previously approved that was reallocated for other purposes. This contributes to further escalation in Market Fees.

Reserve Capacity Mechanism and Cost Allocation Reviews

Collgar considers that the ERA ought to approve funding for AEMO to participate in the Reserve Capacity Mechanism and Cost Allocation reviews. The ERA's report states that insufficient information is available, however at present the Terms of Reference and Scope for Works for both reviews have been finalised³ and an AEMO staff member has been appointed to each sub-committee. However, given that this represents only a small incremental increase in workload, participation in these reviews should not lead to hiring additional staff. Therefore, the approved revenue should reflect a minimal budgetary impact, if any.

Digital Roadmap

Collgar is concerned that AEMO locked in costs for its digital roadmap project that exceeded the approved amount, including that the team doubled in size. While digital improvements are important, the resourcing to undertake these must align with the regulatory framework. AEMO committing to additional unapproved resources in AR5 has put the ERA in a challenging position for AR6 because if it doesn't approve continuation of the additional resources previous work undertaken may not be completed. Collgar encourages the ERA to further work with AEMO to understand its delivery and resourcing approach and whether this aligns with the regulatory framework.

Contingency values

Collgar supports the ERA's view that contingency values must be calculated using a risk-based approach. This approach ought to be consistently applied across projects.

Collgar is concerned that AEMO used more than half of the \$11.4 million contingency funds approved in AR5 for other projects. This demonstrates that AEMO materially overestimated contingencies in the AR5 period. Given this, Collgar does not support substantial contingencies being approved in AR6 as this provides the potential for surplus funds to be used for unapproved projects.

While Collgar prefers not to have the uncertainty associated with in-period submissions, this may be the best option in circumstances where the scope and/or cost of a project is very uncertain. This approach would ensure that additional funds are only provided if required and AEMO can

³ [Reserve Capacity Mechanism Review Working Group \(www.wa.gov.au\)](http://www.wa.gov.au)
[Cost Allocation Review Working Group \(www.wa.gov.au\)](http://www.wa.gov.au)

demonstrate costs will be efficiently and prudently incurred, mitigating the risk AEMO uses contingency funding for unapproved projects.

Thank you for your consideration of Collgar's submission.

Yours sincerely

A solid black rectangular box used to redact the signature of Rebecca White.

REBECCA WHITE

REGULATORY AND TRADING MANAGER