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13 September 2022

Ms Jenness Gardner
Chief Executive Officer
Economic Regulation Authority
Email: publicsubmissions@erawa.com.au

Dear Ms Gardner,

Submission on Draft AEMO Regulatory Reporting Guideline and Supporting Template

The Australian Energy Market Operator (AEMO) appreciates this opportunity to make a submission on the draft AEMO Regulatory Reporting Guideline (Draft Guideline) and supporting template, prepared by the Economic Regulation Authority (ERA) for the purposes of clause 2.22A.9(b) of the Wholesale Electricity Market Rules and rule 109(7)(b) of the Gas Services Information Rules, and published on 30 August 2022.

AEMO supports the objectives of the Draft Guideline, which include providing clarity and guidance on the scope and method of AEMO's reporting, while improving transparency for Market Participants on the timing and expenditure of projects funded through Market Fees.

AEMO provides two attachments in support of this submission. **Attachment 1** provides AEMO's detailed comments in relation to the Draft Guideline. **Attachment 2** identifies Draft Guideline requirements that AEMO will be unable to comply with for the 2021/22 financial year.

While AEMO supports the majority of requirements within the Draft Guideline, it is concerned that in some cases the level of granularity required will result in unintended outcomes or cannot be implemented within the timeframes provided.

AEMO is in the process of implementing new finance and project management systems that in many cases will provide the granularity of implementation requested. Actioning all Draft Guideline requirements prior to the implementation of these new systems will require financial investment in legacy systems, significant manual processes and interventions which are likely to divert resources away from other important initiatives and increase overall costs. AEMO proposes that we will report regularly on the implementation progress of the new systems to the ERA and provide the required information progressively over this period.

AEMO supports providing financial information that the ERA and Market Participants find valuable, commensurate with a reasonable level of cost and effort, but believes that in some instances, the objective of improving transparency can be achieved in ways that are less resource intensive, and therefore timelier and more cost effective. Where applicable, AEMO has provided suggestions on how this can be achieved.

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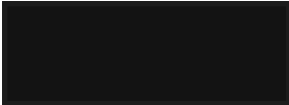
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Importantly, AEMO notes that the provision of budget information to the level of granularity required of the Draft Guideline has the potential to commercially disadvantage AEMO when procuring services by making the budgeted allocation of these services available to prospective tenderers. In relation to these requirements, AEMO recommends a higher-level approach to reporting.

AEMO would welcome the opportunity to discuss this submission further with the ERA. Should you wish to discuss any of the matters raised in this submission, please contact Mike Hales, Manager – WA Regulatory Affairs, at mike.hales@aemo.com.au.

Yours sincerely,

A solid black rectangular box used to redact the signature of Martin Maticka.

Martin Maticka

Group Manager – WA Market Development

Attachments:

Attachment 1: Detailed comments on the AEMO Regulatory Reporting Guideline

Attachment 2: Draft Guideline requirements that AEMO is unable to comply with for FY2021/22 period reporting



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Attachment 1: Detailed AEMO Comments on Draft Guideline

	Guideline section and requirement	AEMO Comments
1.	<i>Section 3: “The financial statements received by the ERA must be consistent with accounting standards established by the AASB that are current at the time of preparation unless the accounting standards conflict with the guidelines, in which case the guidelines take precedence for the purposes of AEMO reporting its budget and financial performance to the ERA”.</i>	<p>AEMO currently prepares financial statements in accordance with AASB accounting standards.</p> <p>In instances where there is a conflict between the Draft Guideline requirements and the AASB accounting standards, AEMO would be required to prepare two sets of financial statements. AEMO would also be required to collect and maintain two sets of verifiable financial information. This would require additional resourcing, and would result in duplication of work</p> <p>AEMO recommends removing the precedence proposed for the Draft Guideline in instances of conflict.</p>
2.	<i>Section 3.1.2 and 3.1.3: New requirements to prepare a statement of cashflow and a statement of financial position for the Western Australian operations will apply from 31 October 2023.</i>	<p>AEMO currently prepares consolidated financial statements in accordance with AASB accounting standards.</p> <p>AEMO is developing a new financial accounting system, currently scheduled for implementation in July 2023, which will allow preparation of specific financial statements for Western Australian operations.</p> <p>AEMO recommends that the proposed requirements are expressed to apply from the commencement of AEMO’s new financial accounting system, rather than from a specific date. This would avoid any requirement to invest in legacy systems and short-term manual workarounds if there are any unforeseen project delays.</p>

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	Guideline section and requirement	AEMO Comments
3	<i>Section 3.1.4: “Project expenditure is to be further disaggregated at the individual project level by the project reporting categories”.</i>	<p>Compliance with this requirement will produce a considerable volume of data, involving onerous and manual tasks that will need to be separately resourced. AEMO will include these requirements into the new project reporting system to account for the new categories (i.e. labour, software).</p> <p>The project breakdown into business function (WEM/GSI), capital/expense, and asset category (5 categories), before disaggregation by individual project and reporting category (12 expenditure categories) will also result in duplication, as one project may need to be listed multiple times.</p> <p>Importantly, the publication of the budget at the granularity required may impede AEMO’s ability to negotiate commercial contracts (for example, publishing the budgeted cost of external labour/software). For initial and in-period submissions, AEMO provides this type of information to the ERA on a commercial-in-confidence basis.</p> <p>AEMO suggests taking a transitional approach to this reporting where it can produce the data with the available granularity as new systems are successfully implemented. It also recommends revising the reporting requirements for the annual budget to require a higher granularity that avoids adverse commercial implications associated with disclosing specific budget amounts for individual line items.</p>
4.	<i>Section 3.2: “Where possible, AEMO must update the budget covering the period in which the change occurs with the revised method to ensure there is a consistent basis for comparison for the twelve-month period. Any interim financial reports published within the previous twelve-month period of the method change, for example informal reporting by AEMO to market participants should explain</i>	<p>While AEMO will make every endeavour to ensure the comparison is meaningful, the Draft Guideline suggests revised data must be produced where possible. Possible does not necessarily mean practical. In some instances, this could result in significant re-work of the data, with associated costs.</p> <p>A requirement to update and republish reports that were correct at the time of publication with revised information, seems unnecessary and inefficient.</p> <p>AEMO understands the intent is to clarify changes in the budget, and suggests this could be better achieved, at lower cost, using a variance explanation approach.</p>



	Guideline section and requirement	AEMO Comments
	<i>any variation and provide a consistent basis of comparison”.</i>	
5.	<i>Section 4.2: “[The] statement of project risks must be grouped by market for the WEM and GSI, and for each capitalised and non-capitalised project. All projects, whether WA only or National, with a total project cost below a threshold of \$500,000 may be grouped and risks aggregated”.</i>	<p>AEMO agrees that providing a statement of risks for operational expenditure and revenue collection would be practical and would help participants understand what may impact the forecast in future. However, AEMO has the following concerns about financially quantifying all risks within the budget:</p> <ul style="list-style-type: none"> • where a project has not yet commenced, a financial representation of risk is likely to be unreliable. This is due to the nature of project management, whereby risks are initially documented in the project development phase and actively managed during project execution, being refreshed at various points; • some types of project risks do not lend themselves to reliable estimation and an attempt to do so may result in under/over estimation; and • many risks are not additive. The eventuality of one risk can negate others, meaning that the sum of financial risks will likely over-estimate the total quantity of risk. In some cases, a financial range may be a better way to quantify a risk, which presents challenges in summing. <p>Furthermore, where relevant, the assessment of project risks feeds into AEMO’s contingency framework for budget and schedule estimations. In this way, there is already a measure of risk within the framework, and it could be considered duplicative and/or confusing to provide this additional financial quantification.</p> <p>To allow for greater insight into AEMO project-level risks for its stakeholders, AEMO recommends that it provide a financial quantification of its the most critical risks across its capital program to the extent that this can be reliably estimated, with higher-level non-quantified risk statements provided for other projects, potentially at the program level, where relevant, noting that some risks are likely to be common across projects.</p>
6.	<i>Section 4.5:</i>	AEMO currently provides this information to the market through our WA Electricity and Gas Consultative Forum process at a high level to provide an overall indication of the



	Guideline section and requirement	AEMO Comments
	<p><i>1. A separate budget showing forecast project expenditure must be included in AEMO published budget papers each year.</i></p> <p><i>2. Each capitalised project must have an accompanying statement of scope as well as major milestones expected to be met during the year by quarter.</i></p>	<p>project. To formalise these updates to the level of detail requested would require significant effort and resources.</p> <p>AEMO notes for Capex, the AEMO BAU process is to budget at a project level. For AEMO, budget is defined as the budget for the budget year, i.e. the financial year of the following year. Forecast project expenditure may be positive/negative in the budget, run over a longer timeframe and be updated periodically.</p> <p>Providing the internal project milestones once a project is established would be useful. However, compiling this for a future project would not be accurate, as the project delivery method and schedule is only created during the planning phase of each project.</p> <p>For these Draft Guideline sections, AEMO recommends that an overview of project scope and forecast of scope is provided for projects that have been initiated, otherwise forecast start and end dates are to be provided – noting any factors that may affect forecast timing.</p>
7.	<i>Section 3.1.4: Non-capitalised projects to be reported separately.</i>	AEMO does not currently capture non-capitalised projects separately as they are part of operational spend. This means these Opex projects have neither been captured in FY22 actuals nor budgeted for FY23 separately. Therefore, this requirement will be also subject to transitional arrangements, where AEMO will start reporting on this upon successful implementation of new financial systems.
8.	<i>Section 3.1.4 and 4.5: Contingency associated with project costs must be separately reported alongside project costs grouped by business function, whether capitalised or non-capitalised expenditure, by asset type and by project</i>	<p>AEMO does not keep a separate budget for contingency funds, contingency is only considered as part of an approved project or program and tracked, as total funds and not by business function or asset type, for that specific application. When a project/program is closed any remaining budget, including contingency funds, is returned to the total Capex budget for the Review Period.</p> <p>AEMO recommends that the remaining contingency amount is recorded for each project or program and reported alongside the statement of risks that helped determine amount.</p>



Attachment 2: Draft Guideline requirements that AEMO is unable to comply with for FY2021/22 period reporting

Guideline requirements	Reason for inability to comply for FY2021/22 reporting
<p>Section 3.1.4</p> <p><i>The use of contingency funds must be separately reported from the general project budget. Remaining contingency funds must be reported in total, grouped into whether associated with capitalised expenditure or non-capitalised expenditure, by asset category, at the project level, and for budget retained after project completion.</i></p>	<p>AEMO does not track contingency funds by any other metric than project or program, and not as a separate budget to total capital expenditure, therefore this requirement cannot be met for FY2021/22 reporting period.</p>
<p>Section 3.1.1</p> <p><i>Non-capitalised project expenditure is to be isolated from general expenditure and separately reported</i></p>	<p>AEMO did not track actuals for Opex projects during FY2021/22, therefore this requirement cannot be met for FY2021/22 reporting. However as mentioned above AEMO will start reporting on this upon successful implementation of new financial systems.</p>
<p>Section 3.1.4</p> <p><i>Within each business function, project expenditure must be disaggregated into capitalised and non-capitalised project expenditure and grouped into the asset categories. Project expenditure is to be further disaggregated at the individual project level by the project reporting categories. Projects must also be linked to AEMO's function under a specific Rule or tie directly to a market objective.</i></p>	<p>AEMO will endeavour to disaggregate the project expenditure as much as possible for the 2021/22 financial year. However due to the manual work required to meet this obligation by the 31 October 2022 deadline, the deadline may not be possible for all projects.</p>