

20 October 2022

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

Dear Ms Gardner,

Submission on the draft revised Guideline to inform the AEMO's funding proposal

The Australian Energy Market Operator (AEMO) welcomes the opportunity to provide this submission in respect of the draft revised Guideline to inform the AEMO's funding proposal.

AEMO observes that the draft Guideline has been prepared by the ERA to inform AEMO's future funding proposals for allowable revenue and forecast capital expenditure under the requirements of the Wholesale Electricity Market Rules clause 2.22A.9(a) and the Gas Services Information Rules rule 109(7)(a).

AEMO welcomes the release of the ERA's draft Guideline, which aims to provide increased clarity and guidance for AEMO on the level of details about projects, functions and costs required by the ERA.

AEMO supports providing the ERA and the market with transparency around its financial reporting. However, some of the obligations in the Guideline may place unnecessary additional administrative overhead on AEMO and increase the cost burden for the market. AEMO is concerned that in some circumstances, the guideline will require AEMO to reproduce information at a more granular level which may not always be practicable or provide a market benefit. In our submission, we have proposed modifications to some of the requirements to allow AEMO to provide the ERA and market participants with the relevant information where it is feasible and effective, and support the Guideline's intention to provide clarity on AEMO's financial reporting.

Based on this approach, we have provided feedback on material items in the attachment.

If you would like to discuss any matters raised in this submission, please contact me at wa.marketdevelopment@aemo.com.au.

Yours sincerely,

Martin Maticka

Group Manager – WA Market Development

Attachment: Detailed AEMO Comments on the Draft Guideline

Attachment 1: Detailed AEMO Comments on the Draft Guideline

	<i>Guideline section and requirement</i>	<i>AEMO's comments</i>
1a	<i>Overall comment: Most of the 'Should' wording from the previously published proposal guidelines (29th Oct 2021) has now been updated to 'Must' in this draft version of the guidelines.</i>	In a number of cases, the draft Guideline is prescriptive in nature. AEMO will provide supporting documentation for submissions where relevant to enhance understanding, though increased requirements of 'must include' should be reconsidered in several cases as the increased requirement on AEMO may outweigh the benefits. AEMO has provided wording on specific sections where applicable below.
B	<p>3.1 Prudence and efficiency There is a clear connection between the forecast costs and AEMO's function(s) and that the scope of the project provides the functions as described in the Rules and no more. In providing this evidence, AEMO must;</p> <p>*Provide supporting material, such as meeting minutes, that demonstrates project scopes have been assessed at the program level, and to ensure projects are delivering AEMO's obligations under the Rules and not over or under-delivering.</p> <p>*Record how and why project scopes change or are reassessed over the review period. These changes in scope must be endorsed, with reasons by the appropriate oversight committee.</p> <p>*Record how the project remains focussed on scope through the project development and implementation process to avoid project scope creep.</p>	<p>AEMO agrees providing this information is a reasonable request. To be efficient, we will align this with our project management process that produces different types of documents depending on the project execution stage. For example, detailed costing would not be produced until after the planning stage. AEMO has formal decision-making steps associated with project stages and aligned with our governance structure.</p> <p>Meeting material is generally prepared for internal use only. Increased effort would be required from AEMO staff to undertake this additional step.</p> <p>In addition, the framing of this obligation could be improved to more clearly outline what the requirement on AEMO is, which is essentially to provide evidence.</p> <p>There is a clear connection between the forecast costs and AEMO's function(s), and the scope of the project provides the functions as</p>

		<p>described in the Rules and no more. Where feasible and relevant to the stage of a project, AEMO must provide evidence that demonstrates the scope of the project meets and does not exceed what is required to deliver the relevant functions under the WEM / GSI Rules, and evidence that this continues to be the case over the life of the project, including:</p> <ul style="list-style-type: none"> - as a project moves through different phases (initiation, planning and execution) - if the scope of the project is revised at any point, and - for the project within the scope of the program as a whole. <p>The evidence provided would form part of AEMO's internal project governance framework, which specifies the process and artifacts produced during the execution of projects.</p>
<p>c</p>	<p>4. AEMO's proposal- AEMO's internal governance The funding proposal submitted to the ERA must include a full description and material in support of the process that the proposal has been through within AEMO to ensure it is accurate, tested and approved by AEMO's leadership. The responsibilities, scope, templates or checklists, minutes, and outcomes of the internal governance processes must form part of the material submitted to the ERA as part of AEMO's proposal.</p>	<p>The intent is to provide a quality submission free of errors, with evidence of AEMO QA provided in the submission. Some of the supporting items outlined by the draft Guideline may not be available in all scenarios.</p> <p>Suggested wording:</p> <p><i>4. AEMO's proposal- AEMO's internal governance</i> The funding proposal submitted to the ERA must include a full description and material in support of the process that the proposal has been through within AEMO to ensure it is accurate, tested and approved by AEMO's leadership. For instance, where available, the responsibilities, scope, templates or checklists, minutes, and outcomes of the internal governance processes must part of the material submitted to the ERA as part of AEMO's proposal.</p>

<p>d</p>	<p>4. AEMO's proposal- Business Cases Any information or data provided as part of AEMO's funding must include information about historically incurred costs and forecast future costs, including any business cases and cost-benefit analyses used to inform these forecasts.</p>	<p>AEMO will include historical data for the cost assumptions, incorporating data from national projects wherever possible. However, including such evidence for each business case may not always be practical. AEMO will endeavour to provide as much of this information as possible.</p> <p>Suggested wording:</p> <p>Any information or data provided as part of AEMO's funding must include information about historically incurred costs (wherever possible) and forecast future costs, including any business cases and cost-benefit analyses used to inform these forecasts.</p>
<p>e</p>	<p>4.1.1 New Staff If AEMO proposes funding for new additional Full-Time Equivalent (FTE) staff, it must: Demonstrate existing staffing levels and processes are efficient but inadequate to meet the new needs. This must also explore reallocating resources within Western Australia and AEMO nationally.</p>	<p>As a prudent and efficient Market Operator, AEMO undertakes these activities prior to arriving at a conclusion regarding the staffing levels being inadequate. Where required, AEMO will provide supporting documentation for this.</p> <p>Suggested wording:</p> <p>If AEMO proposes funding for new additional Full-Time Equivalent (FTE) staff, it must:</p> <p>Demonstrate the need for an additional resource(s). existing staffing levels and processes are efficient but inadequate to meet the new needs. Where appropriate, this must also explore reallocating resources within Western Australia and AEMO nationally.</p>
<p>f</p>	<p>4.1.1 New Staff Provide the costs and/or new FTE requirement by each function or project, including any business cases supporting the costs. In its analysis, AEMO must examine:</p> <ul style="list-style-type: none"> -Existing labour resources and reallocation. -Under-utilised current resources, including evidence from timesheets 	<p>AEMO does not undertake time sheeting hours for Opex staff; time sheeting is only applicable for Capex projects.</p> <p>AEMO suggests revising the wording regarding timesheets, and AEMO will endeavour to provide as much supporting information as it can.</p> <p>Suggested wording:</p>

		<p>In its analysis, AEMO must examine:</p> <ul style="list-style-type: none"> -Existing labour resources and reallocation. -Under-utilised current resources, including evidence from timesheets where practicable.
<p>g</p>	<p>4.2.1 Project Contingency AEMO must estimate its project contingencies using a well-recognised contingency calculation method, based on generally accepted principles for determining project contingencies, such as a probabilistic approach, that is tested for:</p> <ul style="list-style-type: none"> • Reliability: the approach is applied consistently across projects. • Validity: the approach measures what it sets out to measure. 	<p>AEMO recognises the need to justify the allocation of project contingencies, though it is concerned the requirement outlined may be too restrictive and not aligned to our current process. This could potentially create a conflict in our project governance framework.</p> <p>Suggested wording:</p> <p>AEMO must estimate its project contingencies using a well-recognised contingency calculation method, based on generally accepted principles for determining project contingencies. This may include such as a probabilistic approach, that is tested for:</p> <ul style="list-style-type: none"> • Reliability: the approach is applied consistently across projects. • Validity: the approach measures what it sets out to measure
<p>h</p>	<p>4.2.1 Project Contingency There are infinite risks that could possibly occur; the ERA does not expect AEMO to identify and cost every possible risk. Risks that require a contingency must:</p>	<p>Risk management is an important part of the reporting and suggesting restricting this to contingency impacts is a good approach. AEMO suggests adding a material threshold to this would help clarify what risks we need to report on.</p> <p>Suggested wording:</p> <p><i>4.2.1 Project Contingency</i> There are infinite risks that could possibly occur; the ERA does not expect AEMO to identify and cost every possible risk. Material risks that require a contingency, must:</p>

<p>i</p>	<p>3.2 Lowest practically sustainable cost</p> <p>In circumstances where AEMO considers it may benefit from increased efficiencies and economies of scale from its national operations, it may propose adopting systems or processes currently in place in the national electricity or gas markets. The ERA expects AEMO to demonstrate or quantify the benefits that the Western Australian market would receive from adopting a solution from the national electricity market (NEM) or gas market. The ERA expects to see the NEM options qualitatively and quantitatively compared to a WEM standalone solution. This is further discussed in section 4.2.2.</p> <p>&</p> <p>4.2.2 Cost allocation AEMO must provide the total project cost, plus the rationale and basis for apportioning costs to Western Australia and the benefit to Western Australia of being part of a national project, compared to the costs of other alternatives. The ERA expects to see the NEM options qualitatively and quantitatively compared to a WEM standalone solution.</p>	<p>AEMO understands the intent is to assess projects against a WEM standalone implementation. This is a valid requirement for projects with unique requirements under the WEM rules.</p> <p>AEMO is concerned that the current wording could be inferred to apply to all projects, and this assessment would not be practical or efficient. For example, where a project is linked to supporting corporate-wide infrastructure, it would be challenging to tangibly provide a standalone solution.</p> <p>Suggested wording for 4.2.2:</p> <p>AEMO must provide the total project cost, plus the rationale and basis for apportioning costs to Western Australia and the benefit to Western Australia of being part of a national project, where feasible compared to the costs of other alternatives.</p>
<p>j</p>	<p>4.2.3 IT projects AEMO must clearly identify and provide evidence showing that any financial cost saving benefits achieved from any software systems upgrade have been incorporated into its overall expenditure forecast. AEMO must state what the benefits & efficiencies are associated with this expenditure. These efficiencies could include a reduction in staffing levels or reduced unit or activity costs following automation or enhancement.</p>	<p>AEMO understands the intention is to provide evidence of benefits realisation for projects undertaken. Benefits could include cost saving, cost avoidance, compliance, risk reduction etc. For example, an upgrade or change of system is required due to cyber security requirements, safety, age of existing systems and operational requirements. Such projects have significant benefits for AEMO and the market but will not necessarily result in cost-saving benefits.</p> <p>Suggested wording:</p> <p>For appropriate projects, AEMO must clearly identify and provide evidence showing benefits realisation from completed projects. that</p>

		<p>any financial cost saving benefits achieved from any software systems upgrade have been incorporated into its overall expenditure forecast. AEMO must state what the benefits & efficiencies are associated with this expenditure. These efficiencies could include a reduction in staffing levels or reduced unit or activity costs following automation or enhancement.</p>
<p>2</p>	<p>2.2 <i>In-period</i> Costs that can be considered as part of an in-period proposal can only be</p> <ul style="list-style-type: none"> • Costs that were previously rejected by the ERA. • New costs for new projects or functions conferred on AEMO since AEMO’s proposal for the current review period was submitted. • Costs which were not able to be estimated with reasonable confidence at the time AEMO’s proposal for the current review period was submitted. 	<p>This only applies when additional functions or requirements become more certain. This does not apply to clauses 2.22A.12 and 2.22A.13, which apply when AEMOs budget exceeds the overspend allowance. AEMO suggests a change to the wording to align with the rule drafting.</p> <p>2.2 <i>In-period</i> Costs that can be considered as part of an in-period proposal can only be</p> <ul style="list-style-type: none"> • Costs that were previously rejected by the ERA. • New costs for new projects or functions conferred on AEMO since AEMO’s proposal for the current review period was submitted. • Costs which were not able to be estimated with reasonable confidence at the time AEMO’s proposal for the current review period was submitted. <p>This requirement does not apply to adjustments that relate to WEM 2.22A.12 and 2.22A.13.</p>