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1 August 2023

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

Dear Ms Gardner,

Submission on the Economic Regulation Authority's draft determination of AEMO's in-period forecast capital expenditure adjustment

The Australian Energy Market Operator (AEMO) appreciates this opportunity to make a submission on the Economic Regulation Authority's (ERA) draft determination of AEMO's AR6 in-period forecast capital expenditure adjustment (In-period Proposal).

AEMO welcomes the ERA's decision to provisionally approve $46.94 million of the $47.11 million requested, including the full value required to complete the implementation of the Wholesale Electricity Market (WEM) Reform Program under the Western Australian Government's Energy Transformation Strategy.

AEMO accepts the ERA's decision not to approve $0.17 million requested to support WEM and GSI sustaining projects, primarily due to differences in estimating salary costs and contingency associated with rare and unlikely risks. While AEMO maintains that the use of tier rates for salaries are appropriate for the nature of AEMO projects and maintenance of staff confidentiality, AEMO also understands the ERA's difference in views and has provided salary data consistent with the Funding Proposal Guidelines to enable the ERA to make an alternative estimation.

The In-period Proposal was submitted to the ERA in April 2023 based on financial data as of 31 January 2023, with the timing difference allowing AEMO sufficient opportunity to determine and validate the financial forecasts required for its submission. Since this time, delivery of the WEM Reform Program has continued, with a brief update provided in this submission, along with clarifications on the market fee impacts.

Financial forecasts and contingency approach

AEMO's total estimated cost of delivering the WEM Reform Program remains at $128.6 million, with $12.45 million requested in contingency. As part of AEMO's governance processes, the WEM Reform Steering Committee is required to approve any drawdown on contingency. Since AEMO's submission, various project risks have eventuated or been elevated, resulting in the Steering Committee approving the release of contingency funding for five projects. This funding has been used to manage schedule and scope expansion leading to the addition of new resources and extension of existing resources. These resources are being used to provide remediation on the late inclusion of WEM Rules to enable market suspension, SCADA updates, defect fix support, cyber security processes, support for deployments, improvements to code quality and other support measures for the transition to go-live. As at the date of this letter, the unallocated contingency remaining for the program is around $7.7 million.

Unusually for a program at this stage in its lifecycle, a large degree of uncertainty remains. AEMO is progressing to implement the new market on 1 October 2023. While there are a number of significant risks, AEMO is actively managing these and is doing everything possible to resolve them to ensure the market goes live as scheduled. Should these risks eventuate, AEMO expects that significant draw down of its contingency reserves will be required and, depending on the particular circumstances, additional costs may arise.

The complexity of the integrated solution, acknowledged in the draft determination, also leads to the likelihood of significant issues emerging post go-live requiring urgent remediation. While AEMO has planned for that eventuality, with a three-month hyper care period during which a substantial support and defect remediation team is provisioned, there remains a real possibility that assumptions regarding the necessary resource levels prove incorrect. Similarly, any performance issues arising in real world operations, which are impossible to simulate in the testing environment, may require additional unplanned infrastructure to resolve.

WEM fees

AEMO notes the ERA's reference to 17% increases in market fees resulting from AEMO's In-period Proposal. While 17% reflects AEMO's estimates for FY25, as noted in AEMO's submission, this value includes a 'catch up' in depreciation from the capitalisation of projects from 1 October 2023 to 30 June 2024. While FY26 and beyond will likely include additional costs resulting from AEMO's second in-period proposal and its 7th Allowable Revenue submission, AEMO estimates that increases resulting from this In-period Proposal are approximately 10% per year for FY26 – FY28.

If you would like to discuss any matters raised in this submission please contact Mena Gilchrist, Manager Regulatory Affairs at mena.gilchrist@aemo.com.au.

Yours sincerely,

[redacted]

Kate Ryan

Executive General Manager – Western Australia & Strategy