



Economic Regulation Authority

# Notice

14 June 2019

## Australian Energy Market Operator Allowable Revenue and Forecast Capital Expenditure for 2019/20 to 2021/22

### Publication of final determination

The Economic Regulation Authority has approved \$105.9 million of allowable revenue and \$66.3 million in forecast capital expenditure for the Australian Energy Market Operator (AEMO) to use for the next three years. This is the expenditure that AEMO can recover from market participants to cover the cost of its activities in the Wholesale Electricity Market (WEM) and gas markets. The ERA's [final determination report](#) is available on the ERA's website.

The ERA's determination is allocated between electricity and gas as follows:

- Allowable revenue: \$99.8 million for the WEM and \$6.1 million for the gas market.
- Forecast capital expenditure: \$65.8 million for the WEM and \$0.5 million for the gas market.

As a result of the ERA's determination, average market fees in the WEM will increase by 11.1 per cent compared to the current average fee. Gas market fees are calculated differently to WEM fees, and are expected to be 19.5 per cent higher on average than the previous period.

Most of AEMO's forecast capital expenditure is for major projects: WEM reform and the digital roadmap. AEMO's sought forecast capital expenditure of \$48.5 million for WEM reforms.

The State Government is implementing reforms to the WEM to accommodate the growth of renewable and intermittent energy generation from wind and solar farms and rooftop solar systems. The revised market framework and draft rule changes needed to support a new WEM design are expected to be completed by mid-2020. AEMO will then design, procure and implement the information technology and business systems required to deliver the re-designed WEM by 1 October 2022.

There have been large changes in the level of approved forecast capital expenditure between the ERA's draft decision and final determination. This is because the ERA has reconsidered the requirements of the market rules for approving AEMO's allowable revenue and forecast capital expenditure.

In the [draft decision](#) published on 8 May, the ERA interpreted market rules 2.22A.11 and 1.20 as requiring the ERA to approve only an amount of allowable revenue and forecast capital expenditure that was the lowest practically sustainable cost of providing services.

As the WEM reforms are still in an early stage and forecast costs are not detailed, the ERA had intended to approve only part of the proposed capital expenditure. This would have required AEMO to submit further proposals for funding as the reforms progressed.

After reconsidering the requirements of the rules, the ERA has agreed that it must:

- Consider costs incurred by AEMO *seeking to achieve* the lowest practicably sustainable costs (rather than achieving).
- Approve an amount of allowable revenue and forecast capital expenditure for the entire three-year period.

Accordingly, the ERA has approved AEMO's proposed capital expenditure for WEM reform for the full AR5 period.

AEMO also sought \$13.8 million for the digital roadmap project, which is a national project to be delivered over the next five years. The digital roadmap is intended to replace existing standalone systems and to provide a common centralised and secure platform upon which AEMO can build all future information technology infrastructure. AEMO allocated a proportion of the total cost of this project to Western Australia, based on its assumption that the project would deliver similar benefits in Western Australia as those expected in the National Electricity Market. The ERA determined that a prudent service provider would have conducted a more robust cost benefit analysis to verify this cost. The ERA has approved only \$4.8 million in capital expenditure.

There were no major changes in AEMO's allowable revenue between the ERA's draft decision and final determination.

## Background

Every three years, AEMO submits its proposed allowable revenue and forecast capital expenditure requirements for its Western Australian operations to the ERA for approval. In the electricity market, these include market operation and system management of the WEM, and to prepare for and facilitate the implementation of market and constrained network access reform. In the gas market, AEMO's functions include operating the Western Australian Gas Bulletin Board and preparing the Western Australian Gas Statement of Opportunities.

On 15 March 2019, the ERA received AEMO's proposal for the fifth allowable revenue period that extends from 1 July 2019 to 30 June 2022.

The ERA published an issues paper on the proposal on 20 March 2019 and a draft decision on 8 May 2019, and received stakeholder comment in response to both documents. The ERA was required to make its final determination on AEMO's proposal by 14 June 2019.

## Further information

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