

## Meeting Agenda

<b>Meeting Title:</b>	Market Advisory Committee (MAC)
<b>Date:</b>	Thursday 25 July 2024
<b>Time:</b>	9:30 AM – 11:30 AM
<b>Location:</b>	On-line

Item	Item	Responsibility	Type	Duration
1	Welcome and Agenda <ul style="list-style-type: none"> <li>Conflicts of interest</li> <li>Competition Law</li> </ul>	Chair	Noting	2 min
2	Meeting Apologies/Attendance	Chair	Noting	1 min
3	Minutes of Meeting 2024_06_13 Approved out of session. <a href="#">Published 23 July 2024</a>	Chair	Noting	2 min
4	Action Items	Chair	Noting	5 min
5	Wholesale Electricity Market costs	Newmont	Discussion	20 min
6	Draft Rule Change Proposal – Amendments to the framework for determination of AEMO's budget	AEMO	Discussion	20 min
7	Proposal to establish AEMO Major Project Working Group	AEMO	Discussion	15 min
8	Update on Working Groups			
	<b>(a)</b> AEMO Procedure Change Working Group	AEMO	Noting	3 min
	<b>(b)</b> Power System Security and Reliability (PSSR) Standards Review	PSSRSWG Chair	Verbal update	5 min
9	FCESS Cost Investigation	EPWA	Noting	20 min
10	WEM Effectiveness Review	EPWA	Noting	20 min
11	Market Development Forward Work Program	Chair/ Secretariat	Noting	2 min
12	General Business	Chair	Discussion	5 min
	Next meeting: 9:30am Thursday 5 September 2024			

Please note, this meeting will be recorded.

## Competition and Consumer Law Obligations

Members of the MAC (**Members**) note their obligations under the *Competition and Consumer Act 2010 (CCA)*.

If a Member has a concern regarding the competition law implications of any issue being discussed at any meeting, please bring the matter to the immediate attention of the Chairperson.

Part IV of the CCA (titled “Restrictive Trade Practices”) contains several prohibitions (rules) targeting anti-competitive conduct. These include:

- (a) **cartel conduct**: cartel conduct is an arrangement or understanding between competitors to fix prices; restrict the supply or acquisition of goods or services by parties to the arrangement; allocate customers or territories; and or rig bids.
- (b) **concerted practices**: a concerted practice can be conceived of as involving cooperation between competitors which has the purpose, effect or likely effect of substantially lessening competition, in particular, sharing Competitively Sensitive Information with competitors such as future pricing intentions and this end:
  - a concerted practice, according to the ACCC, involves a lower threshold between parties than a contract arrangement or understanding; and accordingly; and
  - a forum like the MAC is capable being a place where such cooperation could occur.
- (c) **anti-competitive contracts, arrangements understandings**: any contract, arrangement or understanding which has the purpose, effect or likely effect of substantially lessening competition.
- (d) **anti-competitive conduct (market power)**: any conduct by a company with market power which has the purpose, effect or likely effect of substantially lessening competition.
- (e) **collective boycotts**: where a group of competitors agree not to acquire goods or services from, or not to supply goods or services to, a business with whom the group is negotiating, unless the business accepts the terms and conditions offered by the group.

A contravention of the CCA could result in a significant fine (up to \$500,000 for individuals and more than \$10 million for companies). Cartel conduct may also result in criminal sanctions, including gaol terms for individuals.

**Sensitive Information** means and includes:

- (a) commercially sensitive information belonging to a Member’s organisation or business (in this document such bodies are referred to as an Industry Stakeholder); and
- (b) information which, if disclosed, would breach an Industry Stakeholder’s obligations of confidence to third parties, be against laws or regulations (including competition laws), would waive legal professional privilege, or cause unreasonable prejudice to the Coordinator of Energy or the State of Western Australia).

### Guiding Principle – what not to discuss

In any circumstance in which Industry Stakeholders are or are likely to be in competition with one another a Member must not discuss or exchange with any of the other Members information that is not otherwise in the public domain about commercially sensitive matters, including without limitation the following:

- (a) the rates or prices (including any discounts or rebates) for the goods produced or the services produced by the Industry Stakeholders that are paid by or offered to third parties;
- (b) the confidential details regarding a customer or supplier of an Industry Stakeholder;
- (c) any strategies employed by an Industry Stakeholder to further any business that is or is likely to be in competition with a business of another Industry Stakeholder, (including, without limitation, any strategy related to an Industry Stakeholder’s approach to bilateral contracting or bidding in the energy or ancillary/essential system services markets);
- (d) the prices paid or offered to be paid (including any aspects of a transaction) by an Industry Stakeholder to acquire goods or services from third parties; and
- (e) the confidential particulars of a third party supplier of goods or services to an Industry Stakeholder, including any circumstances in which an Industry Stakeholder has refused to or would refuse to acquire goods or services from a third party supplier or class of third party supplier.

### Compliance Procedures for Meetings

If any of the matters listed above is raised for discussion, or information is sought to be exchanged in relation to the matter, the relevant Member must object to the matter being discussed. If, despite the objection, discussion of the relevant matter continues, then the relevant Member should advise the Chairperson and cease participation in the meeting/discussion and the relevant events must be recorded in the minutes for the meeting, including the time at which the relevant Member ceased to participate.

## Agenda Item 4: MAC Action Items

Market Advisory Committee (MAC) Meeting 2024\_07\_25

Shaded	Shaded action items are actions that have been completed since the last MAC meeting. Updates from last MAC meeting provided for information in <b>RED</b> .
Unshaded	Unshaded action items are still being progressed.
Missing	Action items missing in sequence have been completed from previous meetings and subsequently removed from log.

Item	Action	Responsibility	Meeting Arising	Status
2/2024	EPWA and Mr Stephen to discuss how an agenda item on the operation of the new WEM can be structured in a way that provides a benefit to both the MAC and the WEM more generally.	EPWA	2024_02_08	<b>Open</b> Provided at Agenda Item 10
4/2024	Western Power to advise the MAC on: <ul style="list-style-type: none"> <li>the reason for the discrepancy between the figures presented and the Transmissions System Plan (TSP);</li> <li>the difference between transfer capacity and the quantum of generation that can connect;</li> <li>whether the current TSP will be updated; and</li> <li>the MARNET Scheme.</li> </ul>	Western Power	2024_02_08	<b>Closed</b> Western Power provided a final update at the 13 June 2024 MAC meeting.

Item	Action	Responsibility	Meeting Arising	Status
6/2024	AEMO to provide an update on the next steps, if any, and indicative date for the Procedure Change Proposal AEPC_2023_03.	AEMO	2024_02_08	<b>Closed</b> AEMO provided an update at the 13 June 2024 MAC meeting.
8/2024	MAC Secretariat to publish the minutes of the 13 June 2024 MAC meeting on the Coordinator's Website as final	MAC Secretariat	2024_06_13	<b>Closed</b> The minutes were approved out of session and published on the Coordinator's Website 23 July 2024
10/2024	MAC members to contact AEMO directly regarding the prioritisation framework or specific procedures	MAC Members	2024_03_21	<b>Closed</b> MAC agreed to close this item at the 13 June 2024 MAC meeting
11/2024	EPWA to include the Terms of Reference (TOR) for the Procedure Content Assessment Working Group (PCAWG) as an agenda item	EPWA	2024_03_21	<b>Open</b> EPWA is updating the TOR to reflect the MAC's and other stakeholder feedback and will provide it at a future MAC meeting
12/2024	Meet offline to discuss and align the schedule of the PCAWG to account for the review of the WEM Procedures against the State Electricity Objective.	EPWA and AEMO	2024_05_02	<b>Closed</b> EPWA and AEMO met offline.
13/2024	Provide a one-page table with a high-level overview of MAC Working Groups	EPWA	2024_05_02	<b>Closed</b> Included within the Market Development Forward Work Program
14/2024	Update the ESS Framework Review TOR to log any issues regarding the WEM fundamental principles noted during this review	EPWA	2024_05_02	<b>Closed</b> Provided at the 13 June 2024 MAC meeting.

Item	Action	Responsibility	Meeting Arising	Status
15/2024	AEMO to liaise with EPWA to circulate any future significant papers to the MAC	EPWA	2024_05_02	<b>Closed</b> MAC agreed to close this item at the 13 June 2024 MAC meeting.
16/2024	Provide an update on the ongoing ESS market investigation	EPWA	2024_06_13	<b>Open</b> Provided at Agenda Item 9





Courtesy of Talison Lithium

# Navigating the Energy Transition – WA Resources Sector Perspectives

WEM Market Advisory Committee  
25 July 2024





# Contents

1. The importance of the SWIS
2. Recent market developments
3. The outlook



# 1. The importance of the SWIS

Electrification is a key pathway to reducing emissions and meeting voluntary and legislated 2030 targets.

Due to land and zoning restrictions, our members in the SWIS are reliant on the WA Government and its entities to deliver a low emission, reliable and cost-competitive grid to meet 2030 targets.

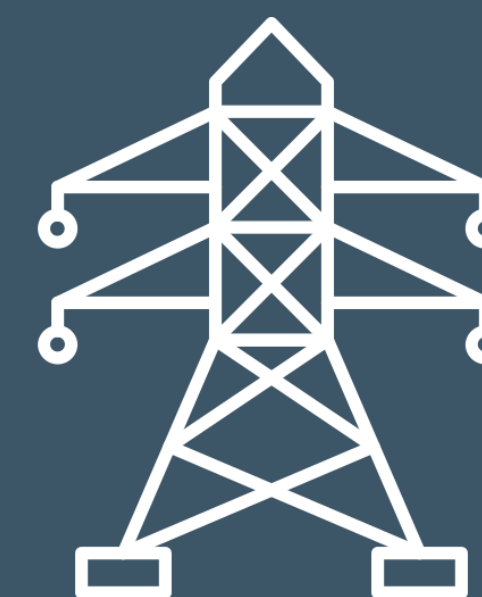
The SWIS Demand Assessment highlights the massive transformation required by 2042:



**5x**  
Increase in total  
annual demand



**50<sup>GW</sup>**  
of new  
generation and  
storage



**4,000 kms**  
New transmission  
lines



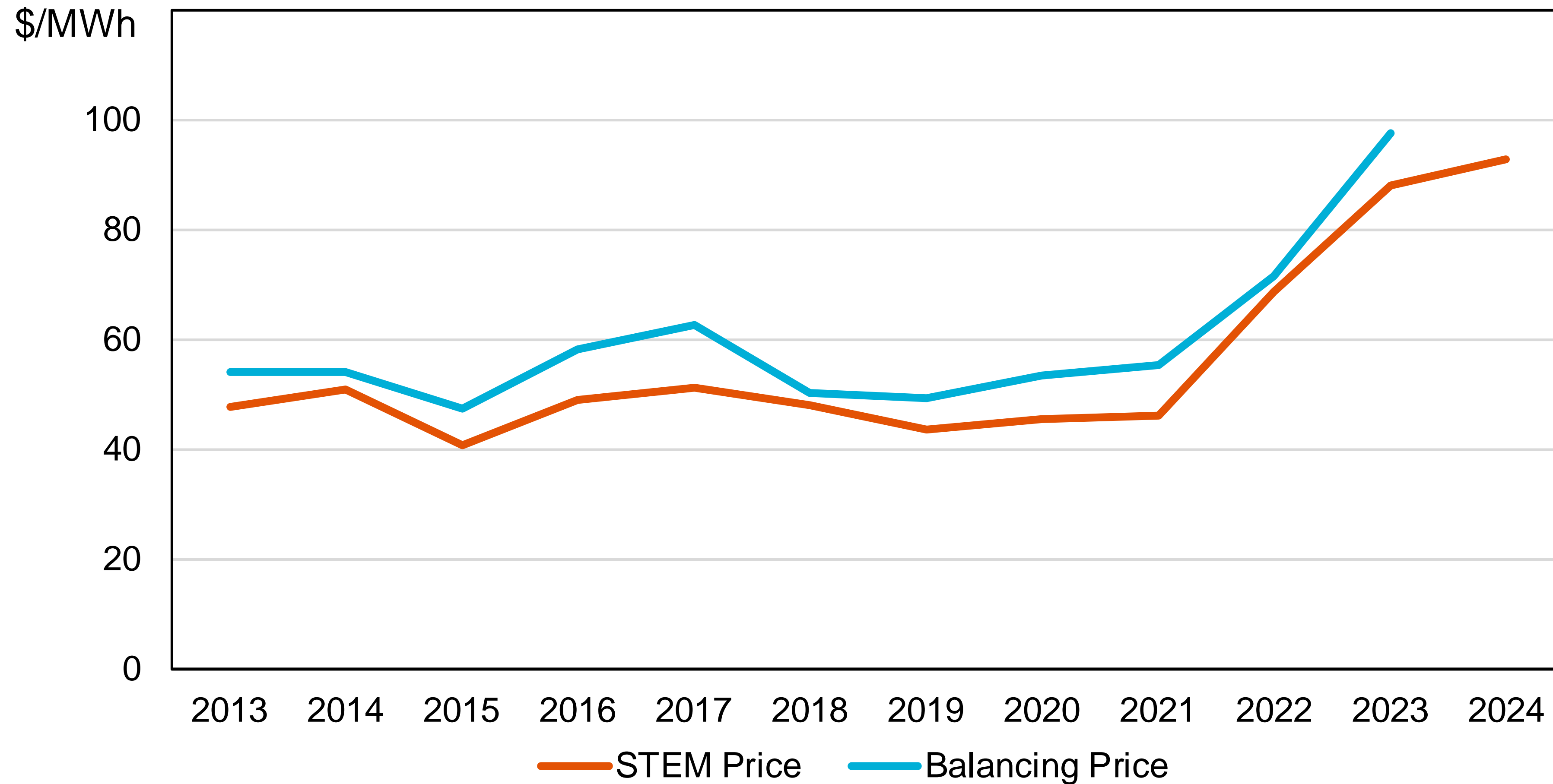
## 2. Recent Market Developments

**CME's policy position is that WA's energy system must be:**

- 1. Low-emission**
- 2. Reliable (firmed)**
- 3. Globally cost-competitive**

# Prices are rising

## WA Wholesale Electricity Market Prices



Sources: AEMO; CMEWA



# Reliability is decreasing

## A less reliable grid:

- Q4 2022 - AEMO sought Supplemental Reserve Capacity (SRC) tenders for only the second time in history of the WEM.
- Q2 2023 - First time a Demand Side Program (DSP) was dispatched in June.
- Q1 2024 - 14 instances of DSP or SRC dispatch.

## 3. The outlook

- The SWIS Demand Assessment and ROI process identified future electricity demand, timing and location, and will generate capex estimates and funding models.
- But there have been no future price estimates provided.



# In Summary

- **A timely, coordinated and cost-effective decarbonisation and expansion of the SWIS is critical to the ongoing sustainability of the WA resources sector and the viability of new strategic industries.**
- **Recent developments in price and reliability are concerning, and pose risks to jobs, investment and the viability of future industries.**

# Agenda Item 6: AEMO Rule Change Proposal to replace the Allowable Revenue Framework

Market Advisory Committee (MAC) Meeting 2024\_07\_25

## 1. Purpose

The Australian Energy Market Operator (AEMO) proposes that the current Allowable Revenue Framework under the Wholesale Electricity Market (WEM) Rules be replaced with a more fit-for-purpose framework for determining AEMO's business priorities, budget and fees.

## 2. Recommendation

That the MAC:

- notes that this paper was prepared by AEMO, and any views expressed in it are AEMO's;
- provides feedback on the proposal; and
- notes that AEMO will refine and submit a rule change proposal.

## 3. Proposal to establish a new framework for determining AEMO's business priorities, budget and fees

### 3.1 Summary of proposal

AEMO proposes that the current Allowable Revenue Framework under the WEM Rules be replaced with a more fit-for-purpose framework for determining AEMO's business priorities, budget and fees.

### 3.2 Background

- In WA, AEMO recovers its costs from market participants via fees, under the WEM Rules.
- Market fees are set in accordance with AEMO's budget, and AEMO's budget must be consistent with AEMO's approved Allowable Revenue, which is determined for each three-year period by the ERA.
- The ERA also determines AEMO's capital expenditure (capex) (together, Allowable Revenue Framework).
- In addition to the three-yearly process, the WEM Rules require AEMO to make in-period submissions if it forecasts it will overspend the approved AR or capex by more than the lower of 10% or \$10 million.
- The recent Allowable Revenue 6 in-period submission process and ERA response reinforced the need for both:
  - uplift of AEMO's engagement with stakeholders around its business priorities and resulting budget and fees for its WEM functions, to improve transparency and enable greater stakeholder input; and



- reform of the Allowable Revenue Framework to one that is more appropriate for the energy transition.

### 3.3 Case for change

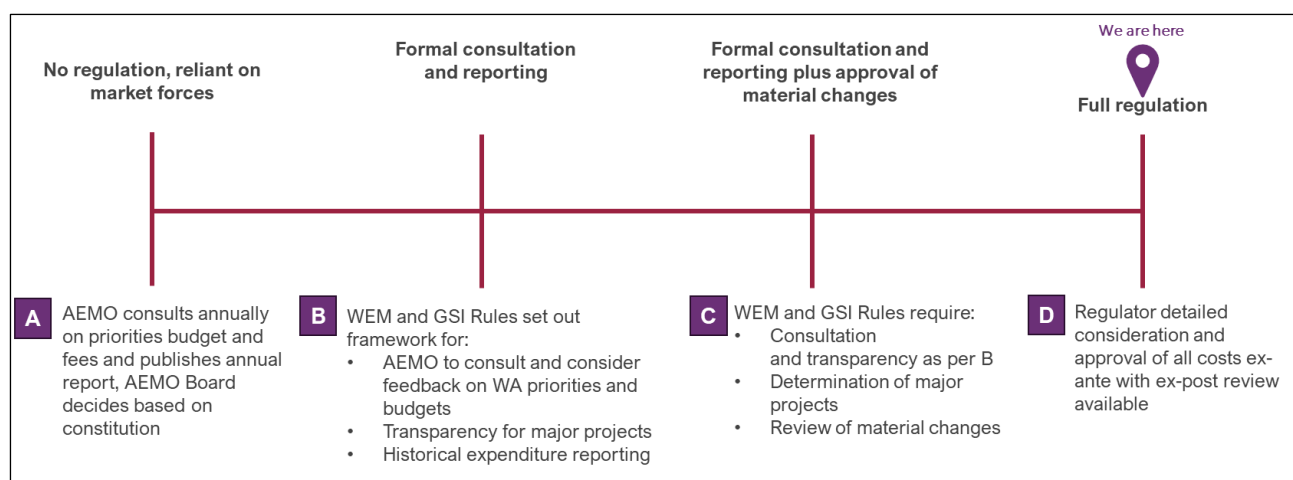
The current Allowable Revenue Framework is not fit-for purpose, in that:

- The level of forecasting accuracy required by the current framework is not achievable in the current fast-moving reform environment.
- The ERA is limited by the level of detail and certainty of information provided to it and is often not in the best position to assess the prudence or efficiency of AEMO's costs.
- It provides limited visibility and certainty of forward-looking costs and fees for Market Participants and end customers.
- It is inflexible and slow to respond to rapid energy policy evolution.
- It has a high administrative burden for all parties – arguably inefficient use of time and money developing a bottom-up analysis of largely fixed and non-discretionary costs.
- It does not allow AEMO to effectively smooth costs and fee impacts between years.

### 3.4 Spectrum of options

AEMO has considered a spectrum of potential options to replace the current Allowable Revenue framework and address the shortcomings of the framework, as shown in Figure 1.

**Figure 1 Spectrum of options for setting AEMO's budget and fees**



AEMO proposes the ideal option to be option B or a combination of options B and C. This could include the following key components:

1. Requirements for AEMO to consult with stakeholders annually on its priorities and draft budget, along with annual reporting.
2. Requirements for AEMO to consult with stakeholders on major projects, both as they are being initiated and during their lifecycle, to enable stakeholders to provide input into the scope, sequence and prioritisation of projects.
3. Consideration of the effectiveness of these mechanisms in achieving the Wholesale Market Objectives as part of the WEM Effectiveness Review.

AEMO is keen to garner feedback from the MAC on potential design.

#### **4. Next Steps**

AEMO intends to refine and submit a rule change proposal by early August.

#### **5. Attachments**

Agenda Item 6 – Attachment 1 -Supporting slide deck and draft Rule Change Proposal.

# Proposed rule change proposal

*Proposed framework for  
determining AEMO's  
business priorities,  
budget and fees*

July 2024





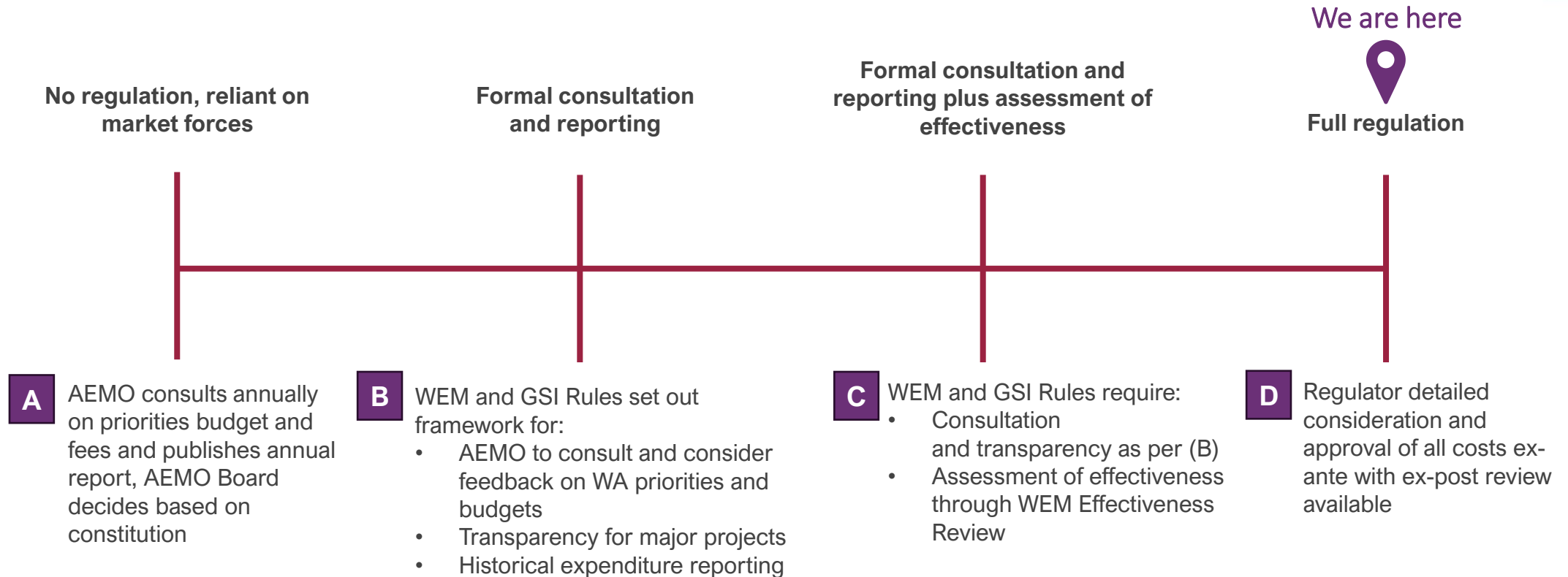
# Case for change – key issues with the current framework

- The rapid pace of reforms to the electricity market to support decarbonisation make it difficult for AEMO to estimate with a high degree of certainty, and for ERA to assess efficiency and prudence, of costs 3 years in advance
- The level of detail and certainty required by the current framework is not achievable.
- There is limited visibility of forward-looking costs.
- Insufficient certainty of market fees for Market Participants
- Inflexible and slow to respond to rapid energy policy evolution
- High administrative burden for all parties – arguably inefficient use of time and money developing a bottom-up analysis of largely fixed and non-discretionary costs
- Insufficient mechanisms to allow AEMO to smooth costs and fee impacts

# Design principles

- Prudence - doing the 'right thing at the right time'
- Efficiency - doing it 'at the right cost'
- Visibility of forward-looking priorities, expenditure and fees
- Opportunity for Market Participants to influence priorities and trade-offs
- Smooth market fees
- Separate consideration of BAU vs major project costs

# Spectrum of options



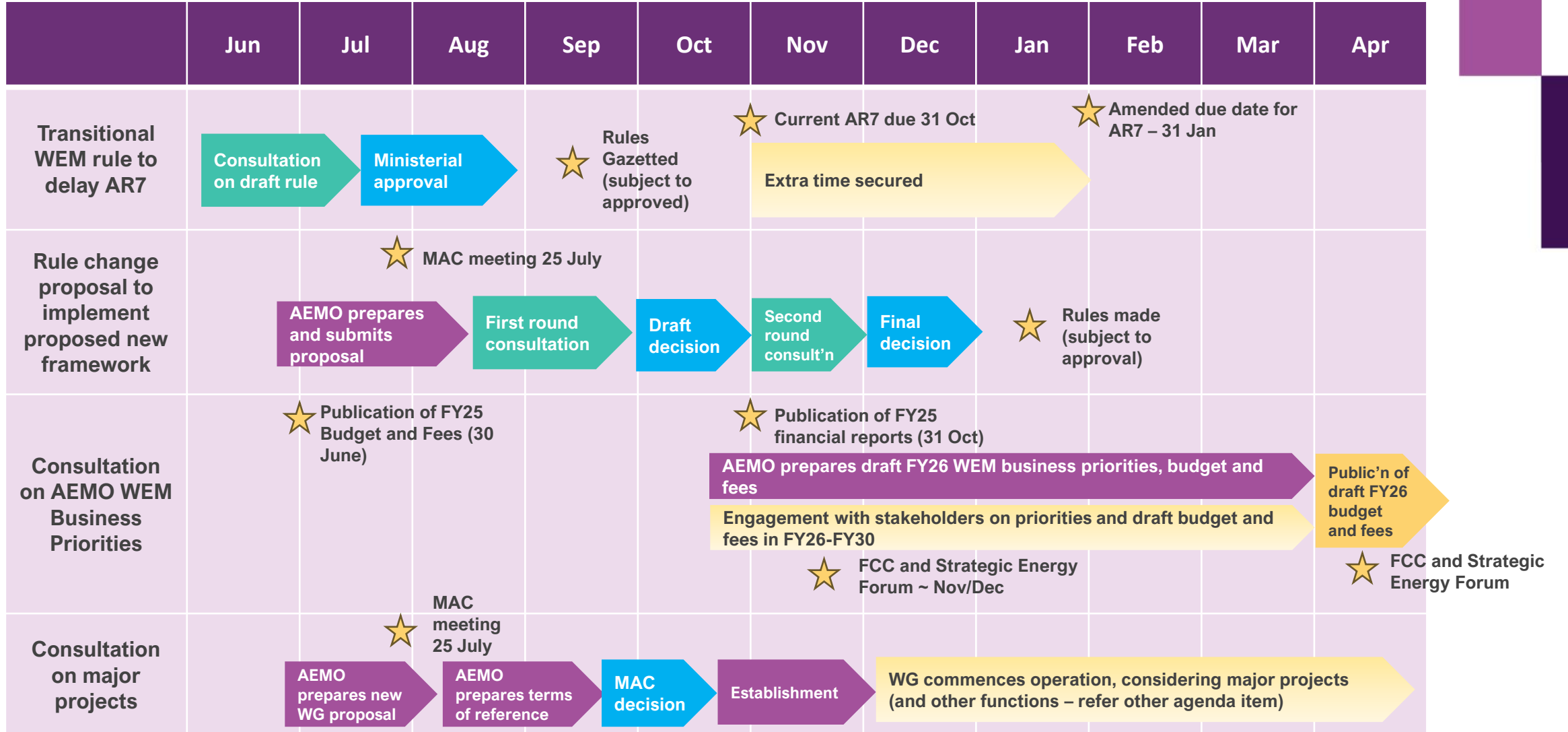
*Current arrangements demonstrate full regulation (D) is not fit-for purpose, but with no competitive market, we need some transparency, engagement with those incurring fees, and oversight as checks and balances (i.e. (A) would not be appropriate). We consider the proposed framework (C) achieves this.*



# Proposed design

- AEMO required to consult with stakeholders annually on its priorities and proposed budget and fees, along with annual reporting.
- AEMO required to consult with stakeholders on ‘major projects’, both as they are being initiated and during their lifecycle, to enable stakeholders to provide input into the scope, sequence and prioritisation of projects.
- AEMO able to smooth revenue and fees over longer term.
- Coordinator of Energy required to consider the effectiveness of these mechanisms in achieving the Wholesale Market Objectives as part of the WEM Effectiveness Review.

# Proposed next steps





For more information visit

[aemo.com.au](http://aemo.com.au)



# Case for change – the ERA’s view

“ *AEMO’s current in-period submission highlights the incompatibility of the regime with the current environment in the WEM. [Final Decision, p3]*

↳ *The fact that AEMO has spent most of its funding and needs to reclaim it from additional funding shows that the incentive-based regulatory framework is not suitable for making assessments of AEMO’s funding requirements. [Final Decision, p32]*

↳ *As the regulator, the ERA also faces difficulty in assessing what would be an efficient level of operational costs given the nature of AEMO’s business and the pace of reforms to the electricity market to support decarbonisation. [Final Decision, p32]*

↳ *On this basis, the ERA strongly supports a replacement of the existing regulatory regime with a more workable arrangement. [Final Decision, p32]*

”

## WEM Rule Change Proposal Form

**Rule Change Proposal ID:** [to be completed by Energy Policy WA]

**Date received:** [to be completed by Energy Policy WA]

### Change requested by:

<b>Name:</b>	Kate Ryan
<b>Phone:</b>	0413 347 100
<b>Email:</b>	<a href="mailto:Kate.ryan@aemo.com.au">Kate.ryan@aemo.com.au</a>
<b>Organisation:</b>	Australian Energy Market Operator
<b>Address:</b>	GPO Box 7096, Cloisters Square, Perth, WA 6850
<b>Date Submitted:</b>	TBC
<b>Proposed urgency:</b>	High
<b>Rule Change Proposal Title:</b>	New AEMO Budget and Fee Determination Framework
<b>WEM Rule(s) affected</b>	Table of Contents, sections 2.22 and 2.22A, clauses 2.16.13B, 2.24.2, 2.24.3 and 2.24.7, and the Glossary

### Introduction

Clause 2.5.1 of the Wholesale Electricity Market Rules (**WEM Rules**) provides that any person may make a Rule Change Proposal by completing a Rule Change Proposal form and submitting it to the Coordinator of Energy (**Coordinator**).

This Rule Change Proposal can be sent by:

Email to: [energymarkets@energy.wa.gov.au](mailto:energymarkets@energy.wa.gov.au)

Post to: Coordinator of Energy  
Attn: Director, Wholesale Markets  
C/o: Energy Policy WA  
Locked Bag 11, Cloisters Square  
PERTH WA 6850

The Coordinator will assess the proposal and will notify you within 5 Business Days of receiving this form whether the Rule Change Proposal will be further progressed.

All of the fields below must be completed for the proposal to be progressed, and the proposal must:

- provide any proposed specific changes to particular WEM Rules; and
- describe how the proposed rule change would allow the WEM Rules to better address the Wholesale Market Objectives.

The Wholesale Market Objectives are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

## Details of the Proposed Rule Change

### 1. Describe the concern with the existing WEM Rules that is to be addressed by the proposed rule change:

AEMO recovers its costs of performing its functions under the WEM Rules from market participants via market fees. Every three years, AEMO must develop an allowable revenue and forecast capital expenditure proposal to cover its forward-looking costs. The Economic Regulation Authority (ERA) reviews this proposal and determines AEMO's funding for the upcoming three-year period under section 2.22A of the WEM Rules.

In addition to the three-yearly process, the WEM Rules require AEMO to make in-period submissions if it forecasts it will overspend the approved Allowable Revenue or capital expenditure by more than the lower of 10% or \$10 million.

This current Allowable Revenue framework is designed as an incentive-based regulatory framework, which seeks to ensure AEMO is adequately funded to perform its functions under the WEM Rules, and that AEMO's costs are prudent and efficient.

The ERA develops and applies stringent guidelines<sup>1</sup> on the quality, accuracy and quantity of information AEMO must provide to substantiate the forecasts as part of that process. This includes both ex-post and ex-ante information.

### **The case for change**

As highlighted by the ERA in its June 2024 Final Determination on AEMO's in-period revenue adjustment, the current incentive-based regulatory framework is not suitable for making assessments of AEMO's funding requirements in the current environment.<sup>2</sup>

The application of section 2.22A of the WEM Rules and associated guidelines means the ERA can only approve forecast costs that have a high degree of certainty. However, in the fast-moving energy transition, it is extremely difficult to forecast with the accuracy and specificity required by the current framework, particularly beyond a 12-month horizon.

Market Participants' needs, energy reform agendas and policies, and project requirements are constantly evolving as WA's energy transition progresses. This introduces considerable uncertainty year-on-year – both of what AEMO and Market Participants need to do, and the associated costs.

<sup>1</sup> Available at: [https://www.erawa.com.au/cproot/22925/2/-AR.6---Final-funding-proposal-guide line.PDF](https://www.erawa.com.au/cproot/22925/2/-AR.6---Final-funding-proposal-guide%20line.PDF)

<sup>2</sup> See ERA Final Determination, p32: <https://www.erawa.com.au/cproot/24147/2/AR-6-2nd-In-period-CapEx-and-OpEx-submission-Final-determination.PDF>



This pace of change is expected to prevail throughout the next decade, meaning AEMO will continue to be limited in the level of certainty and depth of information it can produce to satisfy the requirements of the current allowable revenue framework.

This, in-turn, hinders the ERA's ability to make an accurate assessment of the prudence and efficiency of those forecasts – the only tests under the current framework. The inflexibility of the prudence and efficiency tests under the current rules, does not provide the ERA with sufficient flexibility to approve a three-year forecast subject to changing priorities and limited visibility of project scope, and therefore costs.

The inflexibility and slow pace of the current allowable revenue framework has led to:

- AEMO making four revenue and forecast capital expenditure submissions since 2020, due to the uncertainty inherent in the energy transition, and changing implementation needs from critical Government-led reform initiatives.
- Delays to implementation of major projects required to enable and manage the risks of the energy transition.
- Uncertainty for Market Participants regarding the delivery of critical projects due to funding uncertainty, and an inability to predict future fees, ultimately affecting consumers.
- High costs of administration, with each submission costing AEMO at least \$1 million, with ERA and Market Participant costs in addition.

AEMO considers a 'set and forget' funding arrangement that establishes a multi-year overall fixed budget, with ex-ante review, is not appropriate where there is uncertainty surrounding policy and regulatory outcomes and scope of certain initiatives.

The ERA raises similar concerns in its June 2024 Final Determination:

*The ERA is concerned that the regulatory framework is not leading to outcomes that are beneficial to the WEM, especially given the resourcing required by AEMO and the ERA to bridge information gaps and undertake the ongoing analysis that is associated with the allowable revenue regulatory regime. On this basis, the ERA strongly supports a replacement of the existing regulatory regime with a more workable arrangement.<sup>3</sup>*

### **Design considerations**

AEMO has considered the objectives of a budget and fee determination framework, and identified a number of goals for any new arrangements:

- **Visibility** – ongoing transparency of AEMO's priorities and activities, and associated base costs and major project delivery costs, which will maintain accountability for AEMO to demonstrate value and control costs where possible. This includes a forward-looking estimate of priorities, costs and fees over multiple years to allow Market Participants to budget for and determine what costs can reasonably be passed on to consumers.
- **Influence** – direct engagement with Market Participants and interested stakeholders would allow those paying fees to help AEMO scope and prioritise initiatives, provide opportunity to influence the delivery of major projects (options relating to scope, technical solution, timing, cost recovery etc), and provide advice on what reflects value for money.
- **Certainty** – certainty that AEMO's cost base is reasonable, and sufficient to ensure Market Participants and energy consumers are getting services they value from AEMO. Certainty of the recovery of AEMO's reasonable costs of providing those services is critical to ensure AEMO has

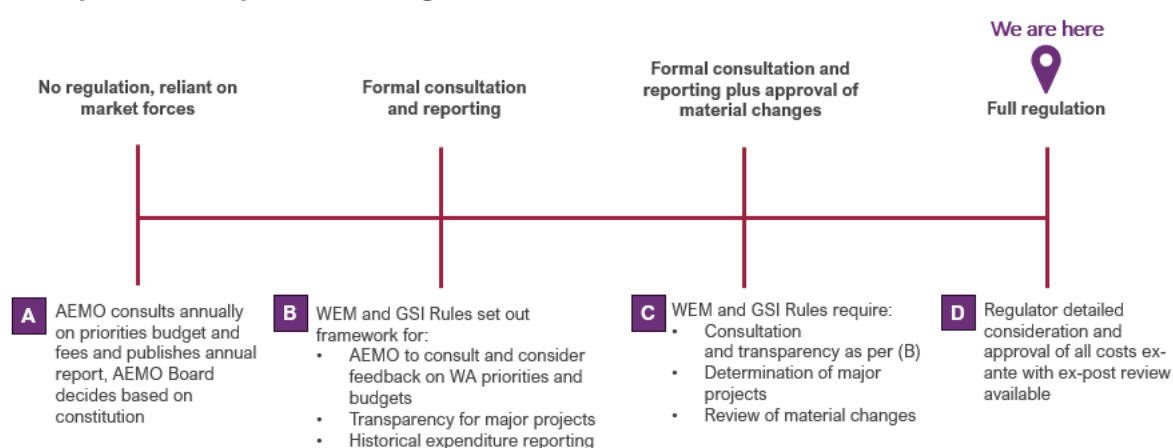
<sup>3</sup> Ibid.

the confidence to deliver projects in the most efficient and timely manner, without unnecessary project risk.

- **Flexibility** – a shorter forecast period, and more regular revision of budgets and fees would allow work programs, priorities and deliverables to change as and when necessary. This is particularly important when AEMO is implementing reform initiatives and responding to fast-paced change. In a period where this is commonplace, inflexibility leads to increased administration costs, increased risk and increased uncertainty for all parties. This reduces the likelihood of projects being delivered as efficiently and effectively as they otherwise could.
- **Timeliness** – the increasingly fast-paced changing energy landscape necessitates the determination of budgets and fees closer to the time that they will apply. This will ensure the costs and project estimates used to determine the forecast revenue and fees are the most contemporary, and therefore likely to be more accurate. This provides increased cost and fee certainty. This needs to be balanced with longer-term visibility and predictability, which can be more effectively provided by regular revisions and earlier stakeholder input into future priorities.
- **Simplicity** – the budget and fee determination process should be as mechanistic as possible and should use existing business as usual (BAU) processes to reduce the resourcing requirement and cost associated with what should be the assessment of relatively stable costs, with the exception of major projects. The area where greater focus is needed is major (large-scale, high-cost or long-timeframe) projects, where additional engagement and stakeholder input is particularly beneficial.
- **Oversight / control** – adequate checks and balances are required to ensure an oversight body is able to undertake, or engage a suitable consultant to undertake, an independent assessment of AEMO’s funding framework, and intervene where it is not delivering outcomes for consumers consistent with the Wholesale Market Objectives. This provision is a back-stop and should be considered the exception rather than the rule.

In developing a fit-for-purpose budget and fee framework, AEMO considered the full spectrum of options outlined in Figure 1 below. AEMO considers neither of the bookend options are consistent with the goals of the framework, or proposed design principles, and has instead sought to propose a framework in this Rule Change Proposal that sits somewhere in between.

**Figure 1 Spectrum of options for budget and fee determination**



The proposed budget and fee determination framework needs to balance the need for transparency and genuine engagement on AEMO’s priorities, with the need for a more simple, lower cost framework that is better suited to the fast pace of change in the energy transition. AEMO considers this Rule Change Proposal reflects that balance.

### **AEMO's proposed new budget and fee determination process**

AEMO proposes to replace the current revenue and fee determination process outlined in section 2.22A of the WEM Rules with a new process (proposed to be introduced in the currently blank section 2.22).

The proposed design accommodates three key elements (B and C in the spectrum of options above):

1. Requirements for AEMO to consult with stakeholders annually on its priorities and draft budget and fees, along with annual reporting.
2. Requirements for AEMO to consult with stakeholders on 'major projects', both as they are being initiated and during their lifecycle, to enable stakeholders to provide input into the scope, sequence and prioritisation of projects.
3. Consideration of the effectiveness of these mechanisms in achieving the Wholesale Market Objectives as part of the WEM Effectiveness Review.

### **Annual priority and budget setting**

AEMO proposes the amended rules include a requirement for AEMO to:

1. consult with stakeholders on its priorities and draft budget and fees annually, and to respond to any stakeholder feedback received;
2. publish its priorities and final budget and fees prior to the start of a financial year; and
3. publish financial reports following the end of a financial year.

Consultation on AEMO's priorities and the associated costs will occur in advance of AEMO Board approval to provide both transparency of AEMO's activities and likely costs, as well as provide a genuine opportunity for stakeholders to challenge and influence AEMO's priorities. This will include a forward estimate of AEMO's budget over at least a 3-year period, to provide stakeholders with ongoing visibility on the likely trajectory of costs and fees.

In practice this is expected to involve:

- early engagement, including via AEMO's Finance Consultation Committee (FCC) and WA Strategic Energy Forum, late in each calendar year, on AEMO's priorities, budget and fees for the upcoming financial year;
- publication of draft priorities, budget and fees by April ahead of the start of the financial year, for a period of at least 20 business days' consultation; and
- publication of priorities and final budget and fees and responses to feedback by 30 June for the coming financial year. The budget for the coming financial would be 'approved', with estimates provided for future years.

AEMO also proposes to replace the requirement to 'true up' year-to-year any actual surplus or deficit arising from the difference between actual and forecast fees and expenditure, with a requirement for a nil surplus or deficit over the longer-term, to enable AEMO and Market Participants to consider opportunities to 'smooth' fees over the short to medium term and reduce annual volatility in fees.

The timing of this process can align with AEMO's annual priority and budget setting processes to minimise administrative costs.

Similar to current practice, AEMO will also be required to publish its financial reports following the end of a financial year.

The requirements related to the minimum information AEMO must publish in relation to its proposed budget and fees, and the process through which it must consult on that proposal, are outlined in the proposed new section 2.22 of the WEM Rules and associated glossary terms.



### Major Project delivery reporting

AEMO undertakes projects to implement approved energy reforms, maintain and upgrade its systems, and to deliver its functions in the context of a rapid transition to a low-emissions, increasingly distributed and weather dependent energy system. AEMO acknowledges that the costs of major projects need to be considered earlier than is currently the case, and that stakeholders need an effective opportunity to influence and inform the timing, prioritisation and in some cases scope of these projects – many of which also have implementation costs for Market Participants.

To enable this, AEMO proposes establishing the concept of a ‘Major Project’ and an associated requirement for stakeholder consultation during initiation and delivery of Major Projects.

The importance of including what AEMO proposes to call ‘Major Projects’ separately is to ensure that the initial project delivery brief is robust and warrants the additional reporting overhead based on the importance to, and impact on, stakeholders. As such, AEMO proposes to introduce the requirement on AEMO to consult with the Market Advisory Committee (MAC) and determine whether a project is a Major Project.

A new requirement for AEMO to determine whether a project is a Major Project, and the criteria AEMO must consider when determining whether a project is a Major Project, is proposed to be included in new clauses 2.22.5 to 2.22.7 of the WEM Rules. The additional reporting obligation is captured in the proposed new clause 2.22.8 of the WEM Rules.

AEMO considers the definition should ensure that this category of projects include:

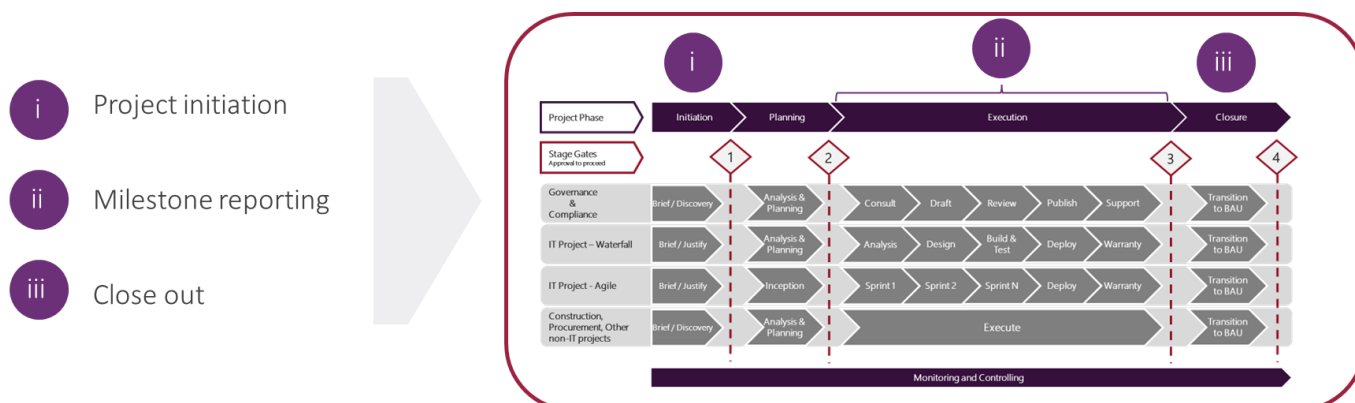
- a major Government-led reform or market development project or program of work;
- a major change to a function, responsibility, obligation or power of AEMO under these rules; and
- a major change to any of the systems (hardware or software) AEMO uses in the performance of its functions, responsibilities, obligations or powers under the WEM Rules.

Where AEMO, in consultation with the MAC, determines a project is a Major Project (at any point in the lifecycle of that project) it is subject to engagement with the MAC or working group should these functions be delegated by the MAC. The MAC may be requested or required to provide advice on these projects to AEMO and/or the Coordinator. AEMO considers the MAC may wish to establish a working group to undertake this function. This function is proposed to be included as new clause 2.22.9 of the WEM Rules.

Major Projects will then form a component of AEMO’s annual priorities and budgets, discussed above.

Similar to the annual budget process, the process for identifying, initiating and undertaking Major Projects aligns with AEMO’s internal investment planning and governance frameworks, as outlined below.

Figure 2: Mapping the Major Project reporting framework to AEMO’s internal governance processes



AEMO proposes the three stages of Major Project reporting as follows:

### **1. Project Initiation**

- AEMO to document high level implementation plan through development of a 'project brief', to include AEMO's early understanding of the following:
  - Description of driver of project including link to objectives
  - Technical solution
  - Timing
  - Options for consideration, variations in scope, timing, phasing
  - AEMO cost estimate and fee impact
  - Any known information on Market Participant impacts including cost and change management
  - Key assumptions
  - Risks with any proposed controls
- MAC to provide feedback of the project brief, including on whether the project should be a 'Major Project'.
- MAC and AEMO to agree an indicative milestone reporting plan.

### **2. Milestone reporting**

- Provide visibility of progress of the delivery progress of a 'Major Project', including material variances (+/-) and reason for variances related to:
  - Technical solution
  - Timing
  - AEMO cost estimate and fee impact
  - Key assumptions
  - Any known information on Market Participant impacts including cost and change management
  - Risks and/or controls
- MAC to provide feedback as required to inform project delivery, including where required recommendations for AEMO's consideration
- Documentation of key changes to be published to provide transparency

### **3. Close out**

- Provide visibility of what was achieved as part of each 'Major Project', including:
  - Project objectives mapped to achievements / expected outcomes
  - Final technical solution, including any changes to scope
  - Overall cost, including any key drivers of higher/lower costs for both AEMO and Market Participants if known
  - Project timing, including any challenges or opportunities
  - Risks, including those that arose, and effectiveness of any controls in place
  - Lessons learnt and commentary on the project overall

- Feedback received from Market Participants as applicable
- Documentation of project outcomes to be published to provide transparency and influence delivery of future projects.

It should be noted, AEMO does not propose to include this information in the WEM Rules, but has considered how practically it would engage with stakeholders and provides this information as context for the proposed Amending Rules in this Rule Change Proposal.

#### Review of framework for determining AEMO's budget and fees

One of the benefits of the current Allowable Revenue framework is that it provides for third-party oversight of AEMO's costs – noting that while AEMO is a not-for-profit entity, it is also not subject to competitive pressures.

Therefore, AEMO considers it important to maintain the ability for an independent party to review the way it determines its budget and fees should there be any concern that the framework is not delivering benefits for energy consumers consistent with the Wholesale Market Objectives.

AEMO proposes to explicitly include review of this framework as part of the review of the effectiveness of AEMO carrying out its functions under clause 2.16.13B of the WEM Rules.<sup>4</sup> This will ensure the WEM effectiveness assessment is able to consider the prudence and efficiency of AEMO's expenditure in the context of the performance of the WEM and outcomes of any changes to market arrangements.

Under clause 2.16.13D of the WEM Rules, the Coordinator must provide a report on the effectiveness of the WEM to the Minister at least once every three years. A three-yearly review period is consistent with the current allowable revenue period.

#### Revenue and fee smoothing

As noted above, the current revenue and fee determination framework requires AEMO to adjust fees for the most recent full year actuals to 'true-up' the amount of revenue recovered, accounting for the variance between the forecast revenue and the actual revenue requirement.

This results in potentially significant fluctuations between years (both increases and decreases) where there is a material variance between forecast revenue and the actual revenue requirement. This happens most often in periods of uncertainty such as currently experienced through the energy transition. This volatility in fees from one year to the next is inconsistent with the desire from Market Participants for fee certainty and stability.

AEMO proposes to amend clause 2.24.5A of the WEM Rules to allow it to either recover a shortfall or retain any excess revenue between years. This will allow AEMO to smooth revenue and fees over the short term. The proposed revenue smoothing ability would be underpinned by a requirement for AEMO to seek to trend the revenue differential towards zero over time.

AEMO proposes to require consultation on, and consideration of, the smoothing options as part of its annual determination of its budget and fees.

AEMO's proposal only relates to smoothing for AEMO's Market Participant Market Fees. AEMO does not propose to provide for smoothing of the Regulator and Coordinator fees because they are set by Government through a separate process, the timing of which often would provide insufficient time for AEMO to consult with industry or apply any smoothing. Clauses 2.24.6 and 2.24.6A the WEM Rules only require the ERA and the Coordinator to provide AEMO with the relevant budget information five business days prior to 30 June each year.

Also, since the Regulator and Coordinator Fees are relatively small compared to AEMO's Market Participant Fees, smoothing of these will provide little impact.

<sup>4</sup> It should be highlighted that the existing drafting of clause 2.16.13B of the WEM Rules would not preclude the Coordinator from considering the reasonableness of AEMO's costs as part of the WEM effectiveness review. However, AEMO has proposed amendments to specify costs to ensure some level of oversight is maintained at least in the short-term.

## Optional approaches to the recovery of costs associated with Major Projects

For the same reason AEMO is proposing overall revenue and fee smoothing, it has considered whether it may be beneficial to consider alternative approaches to the recovery of depreciation and amortisation of Major Projects.

For the purpose of this Rule Change Proposal, AEMO has not proposed to include this functionality in the WEM Rules. However, the proposed amendments would not prevent consideration of alternative approaches, where permitted by relevant accounting standards, including for example differing the cost recovery period for Major Projects.

Should this functionality be required, consideration of these alternatives could be proposed and agreed as part of the project initiation phase of the Major Project reporting framework. The agreed approach could then be very mechanistically incorporated into the Annual Budget and Fee Proposal and Fee Proposal and Approved Annual Budget and Fees.

### 2. Explain the reason for the degree of urgency:

Western Australia's energy transition is ongoing. Further market reforms and significant investments to support the move towards a decarbonised power system are scheduled over the next decade (for example Distributed Energy Resources integration, meter data handling investments, changes to WEM settlement timeframes), with other initiatives likely to emerge.

AEMO is a facilitator of the transition and must be able to respond quickly to the changing needs of the power system and market. AEMO and ultimately Market Participants would therefore benefit from an environment where AEMO can secure certainty of funding and participants have visibility of proposed and forthcoming investments. The sooner the WEM can move to a regulatory framework that provides this, the more efficiently the energy transition can be achieved.

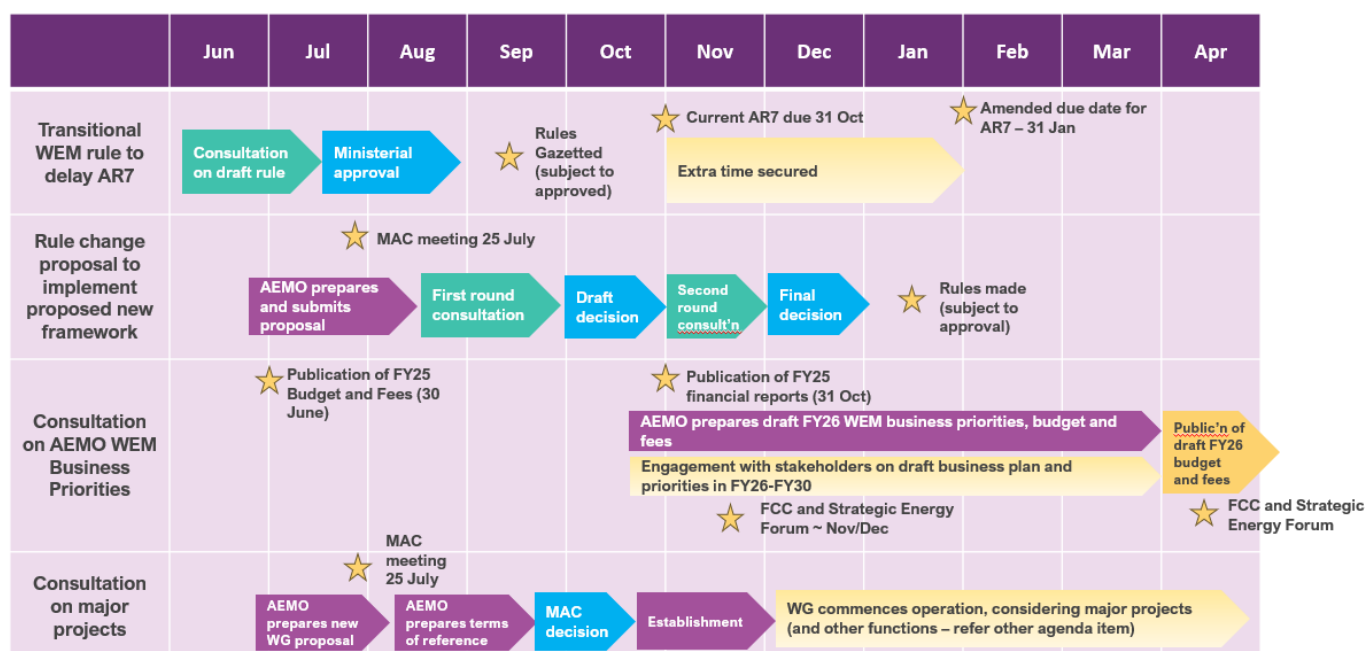
AEMO's next allowable revenue period (AR7) runs from 1 July 2025 to 30 June 2028. Under the current framework, AEMO is required to submit its AR7 proposal to the ERA by 31 October 2025. A separate consultation is underway to defer this date to 31 January 2025 to allow time to consider an alternative framework.<sup>5</sup> AEMO therefore proposes that the necessary amendments to the WEM Rules to introduce a new, more workable, regulatory framework be progressed as a matter of urgency. This will give AEMO and Market Participants clarity on forward-looking WEM fees, Major Projects and funding requirements in time for the 2025-26 Financial Year.

The timeline set out in Figure 3 summarises the Allowable Revenue rule change proposals and consultation on Major Projects, priorities and budgets over coming months.

<sup>5</sup> See Energy Policy WA, Miscellaneous 3 WEM Rule Amendments available at <https://www.wa.gov.au/government/publications/exposure-draft-of-the-miscellaneous-amendments-no3-wem-amending-rules>.



Figure 3 Timeline for proposed rule changes and consultation



**3. Provide any proposed specific changes to particular WEM Rules: (for clarity, please use the current wording of the rules and place a ~~strike through~~ where words are deleted and underline words added)**

For ease of review and reference AEMO proposes to remove section 2.22A, and insert a new section, proposed to replace the current blank section 2.22 of the WEM Rules.

Mark-ups are based on the WEM Rules in force as at 11 July 2024 (8 June 2024 version). AEMO acknowledges EPWA is in the process of progressing Amending Rules that affect a number of clauses in sections 2.22A and 2.24. AEMO will incorporate these changes to the extent relevant once those rules have been gazetted.

AEMO proposes the following amendments to the WEM Rules.

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...

### Budgets and Fees

2.22. ~~[Blank]~~Determination of AEMO's budget and fees

2.22A. ~~Determination of AEMO's budget~~

...

2.16.13B. In carrying out its responsibilities under clause 2.16.13A, the Coordinator must also monitor:

...

- (b) the effectiveness of AEMO in carrying out its functions under the Regulations, the WEM Rules and WEM Procedures, and the process for determining AEMO's Approved Annual Budget and Fees under the WEM Rules;

...

...

## **2.22. [Blank]Determination of AEMO's budget and fees**

2.22.1. AEMO may recover its forecast costs for performing its functions under the WEM Regulations and the WEM Rules through the processes outlined in this section 2.22 of the WEM Rules.

2.22.2. In determining the forecast costs that it may recover under clause 2.22.1, AEMO must:

- (a) engage with stakeholders on its proposed activities, priorities, budget and associated Market Participant Market Fees ("**Budget and Fee Proposal**");
- (b) publish the Budget and Fee Proposal for public consultation for a period of no less than 20 Business Days;
- (c) revise the Budget and Fee Proposal, as required, to account for any changes necessary to respond to, or address feedback provided through public consultation; and
- (d) by 30 April each year, publish the final budget and the resulting Market Participant Market Fees ("**Approved Annual Budget and Fees**") which will apply for the following Financial Year.

2.22.3. In developing its Approved Annual Budget and Fees, AEMO must seek to recover the forecast costs for performing its functions in accordance with the following principles:

- (a) recurring expenditure requirements and payments are recovered in the year of the expenditure;
- (b) capital expenditure is to be recovered through the depreciation and amortisation of the assets acquired by the capital expenditures in a manner that is consistent with generally accepted accounting principles;
- (c) where costs incurred by AEMO relate to both the performance of functions in connection with the WEM Rules, and the performance of AEMO's other functions, the costs must be allocated on a fair and reasonable basis; and
- (d) AEMO may recover an excess or shortfall of revenue between financial years, but must seek to trend the revenue differential toward zero over time to smooth the impact of actual or anticipated cost variations on the Market Participant Market Fees.

2.22.4. The Budget and Fee Proposal under clause 2.22.2(a), must include information sufficient to allow Market Participants and interested stakeholders to form a view on the reasonableness of the proposed annual budget and Market Participant Market Fees. The Budget and Fee Proposal must include as a minimum, the following information:

- (a) actual expenditure for at least the three full financial years prior to the current financial year;
- (b) an estimate of the expenditure expected to be incurred in the current financial year, incorporating year-to-date actual expenditure and reasons for any material variances to the relevant year Approved Annual Budget and Fees;

- (c) the proposed budget and the resulting Market Participant Market Fees for the following financial year (“**Budget Year**”), identifying the forecast expenditure and impact of each expenditure category on Market Participant Market Fees. Expenditure forecasts must be classified as:
  - i. forecast base operating expenditure;
  - ii. asset financing costs;
  - iii. depreciation and amortisation;
  - iv. forecast base capital expenditure; or
  - v. forecast expenditure associated with Major Projects as defined under clause 2.22.5, identified as either capital or operating expenditure;
- (d) forecast expenditure for a minimum of two financial years following the Budget Year, classified to the extent possible, by the same categories as the proposed budget;
- (e) information on each identified Major Project as defined under clause 2.22.5, relevant to the Budget and Fee Proposal;
- (f) the unadjusted revenue path and Market Participant Market Fees resulting from the Budget and Fee Proposal;
- (g) information on the revenue or fee smoothing options considered by AEMO in developing the Budget and Fee Proposal, with reasons for the smoothing approach used, if any; and
- (h) details of any relevant stakeholder engagement activities undertaken in relation to the Budget and Fee Proposal, and any feedback received.

2.22.5. AEMO must provide detailed information and undertake additional consultation on the following types of projects and programs (“**Major Project**”):

- (a) a major Government-led reform or market development project or program of work;
- (b) a major change to a function, responsibility, obligation or power of AEMO under the WEM Rules; or
- (c) a major change to any of the systems (hardware or software) AEMO uses in the performance of its functions, responsibilities, obligations or powers under the WEM Rules.

2.22.6. For the purpose of AEMO determining whether a project is a Major Project under clause 2.22.5, AEMO must consider the potential impact of that project or program on AEMO, and Market Participants, including potential future Market Participants in relation to:

- (a) scope of change;
- (b) cost; and
- (c) delivery timeframe.

2.22.7. Where AEMO considers the impact of a project or program is sufficient, on balance, to warrant the additional consultation, transparency and reporting cost associated with defining

a project or program as a Major Project, AEMO must determine that project or program to be a Major Project.

2.22.8. AEMO must report to the Market Advisory Committee on the plan for, and progress of the delivery of all Major Projects.

2.22.9. The Market Advisory Committee may provide advice on Major Projects as requested or required to AEMO and the Coordinator.

2.22.10. The Approved Annual Budget and Fees under clause 2.22.2(d), must include the information provided in the Budget and Fee Proposal, updated as required, and:

(a) explanation of how AEMO has addressed any relevant feedback on the Budget and Fee Proposal;

(b) explanation of any material changes from the Budget and Fee Proposal; and

(c) the final budget and resulting Market Participant Market Fees to apply to the Budget Year.

## **2.22A.—Determination of AEMO's budget**

~~2.22A.1. Subject to the requirements of this section 2.22A, AEMO may recover its costs for performing its functions under the WEM Regulations and the WEM Rules.~~

~~2.22A.2. For the Review Period, AEMO must seek the determination of its Allowable Revenue and Forecast Capital Expenditure from the Economic Regulation Authority for its functions, in accordance with the proposal guideline referred to in clause 2.22A.9.~~

~~2.22A.2A. A submission by AEMO under clause 2.22A.2 must be made and processed in accordance with the following timelines:~~

~~(a) — by 31 October of the year prior to the start of the Review Period, AEMO must submit a proposal for its Allowable Revenue and Forecast Capital Expenditure over the Review Period to the Economic Regulation Authority;~~

~~(b) — by 31 March of the year in which the Review Period commences, the Economic Regulation Authority must publish on its website a draft determination of AEMO's Allowable Revenue and Forecast Capital Expenditure for the Review Period for public consultation;~~

~~(c) — by 30 April of the year in which the Review Period commences, the Economic Regulation Authority must prepare and publish on its website its final determination of AEMO's Allowable Revenue and Forecast Capital Expenditure for the Review Period together with any submission received in response to the draft determination published in accordance with clause 2.22A.2A(b); and~~

~~(d) — where the Economic Regulation Authority does not make a determination by the date in clause 2.22A.2A(c) or clause 2.22A.2B(c), the Market Participant Market Fee rate determined in accordance with section 2.24 for the current Financial Year will continue to apply until the Economic Regulation Authority makes a determination.~~

~~2.22A.2B. Notwithstanding clause 2.22A.2A, for the Review Period from 1 July 2022 to 1 July 2025 the following applies:~~

- ~~(a) — the Economic Regulation Authority must publish a proposal guideline by 31 October 2021;~~
- ~~(b) — AEMO must submit a proposal for its Allowable Revenue and Forecast Capital Expenditure to the Economic Regulation Authority for the Review Period by 31 December 2021;~~
- ~~(c) — the Economic Regulation Authority must publish on its website a draft determination of AEMO's Allowable Revenue and Forecast Capital Expenditure for the Review Period for public consultation by 31 March 2022; and~~
- ~~(d) — the Economic Regulation Authority must prepare and publish on its website its final determination of AEMO's Allowable Revenue and Forecast Capital Expenditure for the Review Period by 31 May 2022.~~

~~2.22A.3. AEMO's proposal under clauses 2.22A.2A(a) or 2.22A.2B(b) or AEMO's application for reassessment under clauses 2.22A.12 or 2.22A.13 must, to the extent practicable, identify proposed costs that are associated with a specific project or where that is not practicable, one or more specific functions.~~

~~2.22A.4. If AEMO appoints a Delegate, then its proposal for, or application for reassessment of, its Allowable Revenue and Forecast Capital Expenditure must separately itemise the amount payable to the Delegate.~~

~~2.22A.5. The Economic Regulation Authority must take the following into account when determining AEMO's Allowable Revenue and Forecast Capital Expenditure or an application for reassessment to the Allowable Revenue or Forecast Capital Expenditure:~~

- ~~(a) — the Allowable Revenue must be sufficient to cover the forward looking costs of performing AEMO's functions in accordance with the following principles:
 
  - ~~i. — recurring expenditure requirements and payments are recovered in the year of the expenditure; and~~
  - ~~ii. — capital expenditure is to be recovered through the depreciation and amortisation of the assets acquired by the capital expenditures in a manner that is consistent with generally accepted accounting principles;~~~~
- ~~(b) — the Allowable Revenue and Forecast Capital Expenditure must include only costs which would be incurred by a prudent provider of the services provided by AEMO in performing its functions, acting efficiently, to achieve the lowest practically sustainable cost of performing AEMO's functions, while effectively promoting the Wholesale Market Objectives;~~
- ~~(c) — where possible, the Economic Regulation Authority should benchmark the Allowable Revenue and Forecast Capital Expenditure against the costs of providing similar functions and/or projects in other jurisdictions;~~



- ~~(d) — where costs incurred by AEMO relate to both the performance of functions in connection with the WEM Rules, and the performance of AEMO's other functions, the costs must be allocated on a fair and reasonable basis between:
 
  - ~~i. — costs recoverable as part of AEMO's Allowable Revenue and Forecast Capital Expenditure; and~~
  - ~~ii. — other costs not to be recovered under the WEM Rules; and~~~~
- ~~(e) — any other matters the Economic Regulation Authority considers relevant to its determination.~~

~~2.22A.6. The Economic Regulation Authority may do any or all of the following in respect to AEMO's proposal under clauses 2.22A.2A(a) or 2.22A.2B(b):~~

- ~~(a) — approve the costs of any project;~~
- ~~(b) — approve the costs of AEMO performing its functions;~~
- ~~(c) — if the Economic Regulation Authority considers that some costs do not meet the requirements of clause 2.22A.5, reject the costs fully or partially, or substitute those costs with costs the Economic Regulation Authority considers meets the requirements of clause 2.22A.5; and~~
- ~~(d) — recommend to AEMO that some of the costs be considered in a subsequent Review Period or in accordance with clause 2.22A.14.~~

~~2.22A.7. By 30 June each year, AEMO must publish on the WEM Website a budget for the costs AEMO will incur in performing its functions for the coming Financial Year (including, without limitation, the amount to be paid to a Delegate). AEMO must ensure that its budget is:~~

- ~~(a) — consistent with the Allowable Revenue and Forecast Capital Expenditure determined by the Economic Regulation Authority for the relevant Review Period and any reassessment; and~~
- ~~(b) — reported in accordance with the Regulatory Reporting Guidelines issued by the Economic Regulation Authority from time to time in accordance with clause 2.22A.9.~~

~~2.22A.8. By 31 October each year, AEMO must publish on the WEM Website a financial report showing AEMO's actual financial performance against its budget for the previous Financial Year (including, without limitation, the actual amount paid to a Delegate compared to the budgeted amount). The report must be in accordance with the Regulatory Reporting Guidelines issued by the Economic Regulation Authority from time to time in accordance with clause 2.22A.9.~~

~~2.22A.9. The Economic Regulation Authority must issue guidelines, following public consultation, in relation to this section 2.22A, including:~~

- ~~(a) — proposal guidelines, which must consider how future projects that carry a risk of not proceeding or for which the associated costs are not able to be quantified may be dealt with, and provide clarity and guidance to AEMO and Market Participants regarding the level of detail about projects, functions and costs expected in AEMO's proposal; and~~

- (b) — regulatory reporting guidelines, which:
  - i. — must contain annual reporting obligations and provide clarity and guidance to AEMO and Market Participants about the scope of reporting and how AEMO should annually report to the Economic Regulation Authority and Market Participants; and
  - ii. — are aimed at providing transparency and accountability in relation to AEMO's functions and Allowable Revenue and Forecast Capital Expenditure.

~~2.22A.10. The Economic Regulation Authority may amend guidelines issued under clause 2.22A.9 at any time, following public consultation which allows a reasonable opportunity for relevant stakeholders to present their views.~~

~~2.22A.11. Where the revenue earned for the functions performed by AEMO via Market Fees in the previous Financial Year, is greater than or less than AEMO's expenditure for that Financial Year, AEMO's current year's budget must take into account any difference between AEMO's Market Fees revenue and AEMO's expenditure in the previous Financial Year by:~~

- (a) — decreasing the budgeted revenue by the amount of any revenue surplus; or
- (b) — increasing the budgeted revenue by the amount of any revenue shortfall.

~~2.22A.12. Where, taking into account any adjustment under clause 2.22A.11, AEMO's budget is likely to result in revenue recovery, over the relevant Review Period, being at least the lower of 10% of the Allowable Revenue or \$10 million, greater than the Allowable Revenue determined by the Economic Regulation Authority, AEMO must apply to the Economic Regulation Authority to reassess the Allowable Revenue.~~

~~2.22A.13. AEMO must apply to the Economic Regulation Authority to determine the adjusted Forecast Capital Expenditure for the current Review Period if the capital expenditure, over the relevant Review Period, is likely to be at least the lower of 10% of the Forecast Capital Expenditure or \$10 million, greater than the Forecast Capital Expenditure determined by the Economic Regulation Authority.~~

~~2.22A.13A. If AEMO underspends on the Allowable Revenue and/or Forecast Capital Expenditure determined by the Economic Regulation Authority in a Review Period, then, for the next Review Period, the \$10 million threshold in clause 2.22A.13 is to be increased to the amount equal to 30 percent of the underspend plus \$10 million.~~

~~2.22A.14. AEMO may apply to the Economic Regulation Authority, at any time during a Review Period, for additional costs to be considered by the Economic Regulation Authority as part of the Allowable Revenue and Forecast Capital Expenditure for that Review Period:~~

- (a) — for the Allowable Revenue:
  - i. — costs previously rejected by the Economic Regulation Authority pursuant to clause 2.22A.6;
  - ii. — new costs for new projects or new functions conferred on AEMO since AEMO's proposal for its Allowable Revenue for the current Review Period was submitted; and

- iii. ~~costs which were not able to be estimated with reasonable confidence at the time the Allowable Revenue for the current Review Period was submitted; and~~
- (b) ~~for the Forecast Capital Expenditure:~~
  - i. ~~costs previously rejected by the Economic Regulation Authority pursuant to clause 2.22A.5;~~
  - ii. ~~new costs for new projects or new functions conferred on AEMO since AEMO's proposal for its Forecast Capital Expenditure for the current Review Period was submitted; and~~
  - iii. ~~costs which were not able to be estimated with reasonable confidence at the time of the Forecast Capital Expenditure for the current Review Period was submitted.~~

~~2.22A.15. The Economic Regulation Authority may request information from AEMO in relation to the performance of its functions under this section 2.22A. AEMO must provide the information to the Economic Regulation Authority by the time specified in a request, which must be reasonable.~~

~~2.22A.16. AEMO must make an application under clauses 2.22A.12 or 2.22A.14(a) by 31 March for the Economic Regulation Authority to make a determination before the commencement of the Financial Year to which it relates.~~

~~2.22A.17. The Economic Regulation Authority may amend a determination under clauses 2.22A.2A(c) or 2.22A.2B(d) if AEMO makes a reassessment application under clauses 2.22A.12, 2.22A.13 or 2.22A.14 and the Economic Regulation Authority:~~

- (a) ~~must take the matters referred to in clause 2.22A.5 into account in determining any reassessment;~~
- (b) ~~may consider as part of its amended determination any earlier determined costs where the Economic Regulation Authority reasonably considers it necessary to review those earlier determined costs as part of the reassessment;~~
- (c) ~~is not required to reassess earlier determined costs in making its redetermination of the Allowable Revenue or Forecast Capital Expenditure; and~~
- (d) ~~must complete such public consultation as the Economic Regulation Authority considers appropriate in the circumstances.~~

...

2.24.2. Before 30 June each year, AEMO must determine and publish the level of:

- (a) the Market Participant Market Fee rate;
- (b) the Market Participant Coordinator Fee rate;
- (c) the Market Participant Regulator Fee rate;
- (d) each Application Fee; and
- (e) the Reassessment Fee,

to apply over the year starting 1 July in accordance with:

- (f) AEMO's Approved Annual Budget and Fees published under clause 2.22.3(d); ~~budget published under clause 2.22A.7;~~

...

2.24.3. At the same time as AEMO publishes a level of revised Market Participant Market Fee rate, Market Participant Coordinator Fee rate or Market Participant Regulator Fee rate (as applicable), AEMO must also publish an estimate of the total amount of revenue to be earned from:

- (a) Market Participant Market Fees as published in the Approved Annual Budget and Fees under clause 2.22.3(d); ~~collected for AEMO's:~~

- i. ~~market operation services;~~
- ii. ~~system planning services;~~
- iii. ~~market administration services; and~~
- iv. ~~system management services;~~

~~where the amounts to be earned for each service is equal to the relevant costs in AEMO's budget published in accordance with clause 2.22A.7 or as adjusted under clause 2.24.2A;~~

...

2.24.7. The level of each Application Fee:

- (a) must reflect the estimated average costs to AEMO of processing that type of application;
- (b) must be consistent with the ~~Allowable Revenue approved by the Economic Regulation Authority~~ Approved Annual Budget and Fees; and
- (c) may be different for different classes of Rule Participant and different classes of facility.

## 11. Glossary

...

~~**Allowable Revenue:** Means the allowable revenue for AEMO in performing its functions set out in clause 2.1A.2 as determined by the Economic Regulation Authority in accordance with section 2.22A.~~

...

**Approved Annual Budget and Fees:** The document published under clause 2.22.2(d) providing details on AEMO's revised annual budget and resulting Market Participants Market Fees.

...

**Budget and Fee Proposal:** The document published under clause 2.22.2(b) providing details on AEMO's proposed activities, priorities, annual budget and resulting Market Participants Market Fees.

**Budget Year:** The upcoming Financial Year for which AEMO must develop a budget and Market Participant Market Fees under section 2.22 of the WEM Rules.

...

~~**Forecast Capital Expenditure:** With respect to AEMO, the predicted sum of capital expenditure required for a Review Period as determined by the Economic Regulation Authority in accordance with section 2.22A.~~

...

**Major Project:** Any project determined by AEMO under clause 2.22.5.

...

~~**Review Period:** In the case of the first Review Period, the 3 year period commencing on 1 July in the calendar year following the calendar year in which Energy Market Commencement occurs. For each subsequent Review Period, the 3 year period commencing on the third anniversary of the commencement of the previous Review Period.~~

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#### **4. Describe how the proposed rule change would allow the WEM Rules to better address the Wholesale Market Objectives:**

This Rule Change Proposal provides for a regulatory framework that replaces the inflexibility and high threshold for forecasting accuracy of the current framework, with greater visibility of forecast costs, greater certainty of funding, and more flexibility to respond to change.

The revised framework achieves this primarily by substituting the need for perceived accuracy with transparency. It is almost impossible to get an expenditure forecast right, especially in a fast-moving reform environment. However, it is important to highlight that Market Participants only pay for what AEMO actually spends and fees are 'trued-up' accordingly. This means the accuracy of the forecast is less important than the reasonableness of the estimate and the delivery of the projects proposed within it. The new framework therefore places greater emphasis on engagement, visibility of actual expenditure, and ongoing dialogue to test that AEMO's rolling budgets are reasonable.

AEMO understands Market Participants want visibility of forward-looking expenditure, the opportunity to influence the timing, priorities and scope of AEMO's activities, including major projects, and some certainty around fees. A three to five-year forecast would provide this. Under the proposed framework, AEMO is required to develop a budget and fee estimate over the short to medium term based on the best information available to it at the time. Once established, the Budget and Fee Proposal would be refreshed annually, with Market Participant Market Fees and forecasts updated accordingly.

While the Budget and Fee Proposal covers between three and five years, it is accepted that the accuracy of the estimates will diminish for the outer years of the period. However, only the first year will be subject to annual approval and is required to be reasonably accurate. The forecasts for the outer years are designed to provide Market Participants and consumers a price signal and used for smoothing fees going forward.

The Budget and Fee Proposal will be informed by historical actuals and will present the past three years of rolling actual expenditure to provide visibility of how AEMO is performing against targets. Most importantly, the Budget and Fee Proposal will be annually reviewed, challenged, and influenced by Market Participants.

A key principle of the new regulatory framework is more direct, earlier engagement with stakeholders. By its own admission, the ERA's ability to assess AEMO's prudence and efficiency is limited by the quality of information provided to it. The pace of change means any uplift in the quality or accuracy of information is difficult. To address this, rather than the ERA having to surmise what participants are prepared to support, AEMO will engage directly and publicly with Market Participants, who will play a vital role, providing oversight and a formal and direct way of influencing AEMO's priorities and work program.

This will be achieved through publication of an annual proposal, which will be subject to ongoing consultation via the FCC, Strategic Energy Forum and a public consultation period. AEMO should be required to demonstrate that forecasts have been developed on a reasonable basis, consider stakeholder feedback, and respond accordingly.

Another important change will be the separate engagement on 'Major Projects'. A large portion of AEMO's costs is fixed and recurrent. The new market and AEMO's recent operating model changes means AEMO's BAU costs (e.g. labour, accommodation, licences) should be relatively stable over the coming years. Once AEMO has established this cost base, it will be straightforward to publish a reasonably accurate annual budget, and an estimate over the following three to five years, adjusted for economic and other escalators. BAU should be considered separately from major projects and oversight and intervention be relatively light touch.

Major Projects are those that have a material impact on costs/systems/participants and should be scrutinised and challenged by Market Participants for prudence and efficiency. Examples would be the recent WEM Reform program, any significant changes to market settlement processes, and replacement of the metering system. Under the proposed new framework, Major Projects must be tested with the MAC and cost estimates developed using the best information available at the time. This gives Market Participants the ability challenge the aspects of the scope, timing and prioritisation of the proposal, the appropriateness of the technical solution, and also provide information on the implementation costs for Market Participants.

Major Projects can be tested with the MAC on an ongoing basis, for inclusion in the relevant Budget and Fee Proposal(s). This provides sufficient flexibility for AEMO to be able to respond to in-period energy transition needs, as well as providing a degree of visibility and control for Market Participants.

By enabling greater involvement and oversight from Market Participants, the form of heavy-handed and inflexible regulation placed on AEMO's investment in the WEM by incentive-based regulation, is replaced with a framework whereby AEMO's ongoing costs and major investments are challenged by the parties in the best position to assess whether they are of value to the market.

Finally, the proposed new budget and fee determination framework will have a lower ongoing administrative burden than full regulation. The process of annual refresh and ongoing engagement will be significantly easier than producing a three-year bottom-up build of forecast costs (as per current practice). An important principle of the proposed new framework is to leverage channels and processes that already exist rather than create new ones.

For the reasons above, AEMO submits that the WEM Rules as proposed to be amended better meet the requirements of the Wholesale Market Objectives. Specifically:

*(a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;*

*(d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system;*

The proposed changes enable the efficient investment in the WEM via delivery of the necessary market and power system investments to facilitate the energy transition. In turn, delivering the energy transition will reduce the long-term costs of electricity in the SWIS, enabling lower-cost generation to enter the market.

The proposed new framework will also help ensure that the cost, timing and priority of major projects are considered prior to delivery, therefore promoting economically efficient investment and more sustainable change.

## **5. Provide any identifiable costs and benefits of the change:**

The proposed new budget and fee determination framework will:

- reduce the costs associated with full incentive-based regulation – AEMO's costs alone are around \$1 million for the development an allowable revenue submission, and \$0.5 million for each in-period submission with the ERA and Market Participant review costs on top;
- streamline the budget and fee determination process to leverage existing investment governance and internal budgeting processes and information, thereby reducing internal effort required to repurpose forecast cost and project information;
- allow timely investments in market and system operations to be undertaken by AEMO thereby improve overall market outcomes for the benefit of consumers; and

- improve engagement outcomes by providing a direct and continuing channel for Market Participants to review, challenge and influence Major Project delivery.
-

# Agenda Item 7: Proposal to establish AEMO major project working group

Market Advisory Committee (MAC) Meeting 2024\_07\_25

## 1. Purpose

The Australian Energy Market Operator (AEMO) proposes that an AEMO major project working group be established to support the planning and implementation of Wholesale Electricity Market (WEM) reforms and major AEMO projects.

## 2. Recommendation

That the MAC:

- notes that this paper was prepared by AEMO, and any views expressed in it are AEMO's;
- provides feedback on the proposal;
- agrees to establish an AEMO major project (AMP) working group; and
- notes that AEMO will prepare draft terms of reference to be considered at a future MAC meeting.

## 3. Proposal to establish an AEMO major project (AMP) working group

### 3.1 Summary of proposal

- AEMO proposes that a working group be established to provide input and strategic advice in relation to the planning, costing and delivery of work required to deliver reforms and AEMO major projects to ensure:
  - reforms and major projects are delivered in a timely and efficient manner.
  - AEMO's and industry's costs are minimised.
  - potential impacts on industry and consumers are considered.
  - changes to scope and timing are effectively managed.
  - regulatory and IT changes are effectively coordinated.
- AEMO proposes that it chair and provide secretariat support to the AMP Working Group

### 3.2 Background

- Through its consideration of an alternative to the allowable revenue framework under the WEM Rules, AEMO has identified an opportunity to convene a MAC working group to better inform prioritisation, interdependencies, sequencing, timing and cost of reforms and major projects.
- A new MAC working group could be established pursuant to clause 2.3.17 of the WEM Rules and section 9 of the MAC Constitution.

- Under the MAC's constitution, the following requirements apply to Working Groups:
  - Working Groups must report to the MAC at least once every two months, unless otherwise specified in the terms of reference.
  - Reporting will be via the Working Group secretariat.
  - The Working Group will report to the Market Advisory Committee at other times requested by the MAC.
  - Day-to-day interaction between the MAC and the Working Group will be via the MAC Secretariat.
- AEMO proposes that it chair and provide secretariat support to the AMP Working Group

### 3.3 Proposed scope

AEMO proposes the following scope for the working group:

- Provide feedback on the prioritisation, interdependencies, sequencing, timing and cost of AEMO projects required to deliver reforms and major projects.
- Provide early input on the scope, options and interdependencies of AEMO and industry business process, system and technology uplifts required to implement reforms and major projects.
- Share information on technology costs associated with implementation options for reforms and major projects.
- Identify areas or opportunities to reduce overall cost to AEMO and industry.
- Identify risks and share emerging issues that may impact on the implementation of reforms and major projects.
- Provide advice on AEMO's strategic initiatives to make changes to market systems that will reduce costs for participants and consumers.
- Subject to the progress of the proposal to amend AEMO's allowable revenue framework (refer to other AEMO agenda item), the working group could assist MAC in advising on the classification of a reform or initiative as a 'major project'.

AEMO proposes the following be out of scope:

- Cost benefit assessment of policy or rule changes.
- Decision-making regarding AEMO's internal program and financial governance.

### 3.4 Questions for discussion

Question 1: Do you think there is a need for such a working group?

Question 2: Are there any additional items that you think should be within scope?

Question 3: Are there any items that you think should be out of scope?

## 4. Next Steps

If the MAC agrees to establish the AMP working group, then AEMO will prepare draft terms of reference to be considered at a future MAC meeting.

## 5. Attachments

Nil.



# MARKET ADVISORY COMMITTEE MEETING, 25 July 2024

FOR DISCUSSION

SUBJECT: UPDATE ON AEMO'S WEM PROCEDURES

AGENDA ITEM: 8(A)

## 1. PURPOSE

Provide a status update on the activities of the AEMO Procedure Change Working Group and AEMO Procedure Change Proposals.

## 2. AEMO PROCEDURE CHANGE WORKING GROUP (APCWG)

	Most recent meetings	Next meeting
Date	6 June 2024	As required
WEM Procedures for discussion	<ul style="list-style-type: none"> <li>WEM Procedure: Mid Peak Electric Storage Resource Obligation Intervals</li> </ul>	

### 3. AEMO PROCEDURE CHANGE PROPOSALS

The status of AEMO Procedure Change Proposals is described below, current as at 25 July 2024. Changes since the previous MAC meeting are in **red text**. A procedure change is removed from this report after its commencement has been reported or a decision has been taken not to proceed with a potential Procedure Change Proposal.

ID	Summary of changes	Status	Next steps	Indicative Date
Procedure Change Proposal AEPC_2024_03 WEM Procedure: Long Term Projected Assessment of System Adequacy	AEMO has initiated this Procedure Change Proposal to amend the Procedure to reflect amendments arising from the Wholesale Electricity Market Amendment (Reserve Capacity Reform) Rules 2023, gazetted on 13 December 2023.  AEMO has proposed Procedure changes to incorporate: <ul style="list-style-type: none"> <li>• Introduction of Availability Duration Gap metrics and Electric Storage Resources Duration Requirements for Electric Storage Resources (ESR) and Peak Demand Side Programme Dispatch Requirement for Demand Side Programmes (DSP).</li> <li>• Replacement of Availability Classes with Capability Classes.</li> </ul>	Commenced	N/A	13 June 2024
Procedure Change Proposal AEPC_2024_04 WEM Procedure: RCM Constraint Formulation	AEMO has initiated this Procedure Change Proposal to make administrative amendment to the Procedure arising from the Wholesale Electricity Market Amendment (Reserve Capacity Reform) Rules 2023, gazetted on 13 December 2023.	Commenced	N/A	13 June 2024

ID	Summary of changes	Status	Next steps	Indicative Date
<p>Procedure Change Proposal AEPC_2024_05 WEM Procedure: Mid Peak Electric Storage Resource Obligation Intervals</p>	<p>AEMO has initiated this Procedure Change Proposal following amendments to clause 4.11.3A and Chapter 11 (Glossary) of the WEM Rules.</p> <p>AEMO has proposed Procedure changes to:</p> <ul style="list-style-type: none"> <li>• Amend the title of the procedure and section titles to reflect the new focus on the Mid Peak Electric Storage Resource Obligation Intervals (MPESROI).</li> <li>• Set out the processes AEMO must follow when determining changes to the Trading Intervals to be classified as MPESROI, and publishing the MPESROI.</li> <li>• Set out circumstances in which AEMO can determine changes to the MPESROI.</li> <li>• Remove the consultation process that applies to changes to published MPESROI, to comply with changes to clause 4.11.3A(c)(i) of the WEM Rules.</li> </ul>	Commenced	N/A	1 July 2024

## Agenda Item 9: FCESS Cost Investigation

Market Advisory Committee (MAC) Meeting 2024\_07\_25

### 1. Purpose

Energy Policy WA (EPWA) to provide an update on the ongoing Frequency Co-optimised Essential System Services (FCESS) costs investigation.

### 2. Recommendation

That the MAC notes the update provided in this paper.

### 3. Background

- FCESS costs have increased significantly since the new WEM started on 1 October 2023 and remain high, causing concerns for both Market Participants and customers.
- At the 2 May 2024 MAC Meeting, the MAC was provided a verbal update on the ongoing investigation into this by EPWA, AEMO and the ERA.
- On 22 May 2023, a temporary FCESS price ceiling of \$500 was implemented, which will end on 20 November 2024 to allow time for the investigation to reach its conclusion.
- The FCESS issues under investigation are:

Issue	Potential impact
<b>Overcompensation</b> – Potential overcompensation though FCESS prices and FCESS uplifts	Higher FCESS costs
<b>Tie breaking method</b> – for an FCESS, a greater than needed number of facilities can be dispatched.	Inefficient dispatch creates higher than necessary FCESS Uplift payments
<b>RoCoF Uplifts</b> – The dispatch engine generally dispatches all available RoCoF due to it being priced at \$0/MWs without accounting for the FCESS uplift payment	Inefficient dispatch creates higher than necessary FCESS Uplift payments
<b>Conversion</b> – Market Participants are not converting Available Capacity to In-Service Capacity when Market Schedules indicate a Facility will be dispatched for a Market Service	Creating real-time shortfalls leading to unnecessarily high Market Clearing Prices
<b>Notice periods</b> – the period for Available Capacity in submissions may be longer than necessary	Capacity shortfalls and causing the dispatch of expensive facilities
<b>Prices in submissions</b> – high prices in submissions leading to the cap being reached may not reflect real-time shortfalls	Likely created unnecessarily high Market Clearing Prices

- On 18 July 2024, EPWA held a TDOWG meeting to outline the findings of the investigation.

## 4. Next Steps

- EPWA intends to publish the proposed WEM Rule amendments to implement the recommendations in August 2024 for public consultation. Consultation will close in September allowing four weeks for stakeholder feedback.
- EPWA can provide an update to the MAC at the 17 October 2024 meeting following public consultation and when the WEM Rules are closer to finalisation.
- The proposed WEM Rules are intended to be operational before the temporary FCESS price ceiling ceases to apply on 20 November 2024.

## 5. Attachments

Agenda Item 9 – Attachment 1 - TDOWG slides





Department of Energy, Mines,  
Industry Regulation and Safety  
Energy Policy WA

# TDOWG Meeting 51

18 July 2024

Working together for a  
**brighter** energy future.

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9.30am **Welcome and overview**

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9.35am **FCESS Costs Solutions – Addressing WEM Rules problems / deficiencies**

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10.30am **FCESS Costs Solutions – Reinforcing Participants obligations**

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11.15am **Other Proposed Amendments**

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11.25am **Next Steps**

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**Please place your microphone on mute, unless you are asking a question or making a comment.**

- **Please keep questions relevant to the agenda item being discussed.**
- **If there is no break in discussion and you would like to say something, you can ‘raise your hand’ by typing ‘question’ or ‘comment’ in the meeting chat. Questions and comments can also be emailed to [energymarkets@dmirs.wa.gov.au](mailto:energymarkets@dmirs.wa.gov.au) after the meeting.**
- **If you are having connection/bandwidth issues, you may want to disable the incoming and/or outgoing video.**

Description
The FCESS tie-break method used can dispatch more facilities for an FCESS than are needed, which will lead to higher FCESS Uplift costs than necessary.
Energy Market Clearing Prices reaching the cap due to the prices in submissions rather than real-time shortfalls.
Market Participants failing to convert Available Capacity to In-Service Capacity when Market Schedules indicate that a Facility will be dispatched for a Market Service
Notice periods for Available Capacity in submissions appear to be longer than necessary in some cases.
Minimum enablement quantities for some FCESS appear to be higher than would seem necessary.
"Facilities stuck in Trapezium" in the reference scenario due to a minimum enablement constraint, but this does not occur in the in-Service-Capacity-Only scenario (or in the actual primary dispatch run).
Large variations (reductions) in Forecast Unscheduled Operational Demand over the period leading up to a Dispatch Interval during which MPs make their commitment decisions.
Use of persistence forecasts for all Dispatch Intervals in a Dispatch Schedule when intermittent output is reducing.
The Dispatch Engine will tend to dispatch all the available RoCoF, because it is being priced at \$0/MWs/hour, and dispatch is not currently taking into account the effect of this dispatch on FCESS Uplift Payments.
The rules relating to intervention events and intervention pricing fit for purpose or could lead to inefficient market outcomes
There may be Dispatch Intervals where the FCESS requirements are higher than necessary
FCESS Clearing Price Ceilings may be set too high. The current formula is Energy Offer Price Ceiling - Energy Offer Price Floor + the relevant FCESS Offer Price Ceiling.

	Description	Potential Impact / Materiality	Proposed Solution
Rules/Design issues	The FCESS tiebreak method used can dispatch more Facilities for an FCESS than are needed	Inefficient dispatch with higher FCESS Uplift Payments than necessary.	Change the tiebreak method
	WEMDE dispatches all the available RoCoF Control Service, as it is being priced at \$0/MWs/hour, not taking into account the effect of this on FCESS Uplift Payments.	Inefficient dispatch with higher FCESS Uplift Payments than necessary. NOTE: We will continue to work on the design of the RoCoF market.	Remove FCESS Uplift Payments for RoCoF Control Service, but provide Energy Uplift Payments for Facilities that are constrained on specifically to provide RoCoF Control Service
	Overcompensation through the combination of FCESS payments and FCESS Uplift Payments	Increased FCESS costs overall.	Change the formulation to make sure that no one is “overcompensated” for the provision of FCESS
Participants behaviour	Market Participants failing to convert Available Capacity to In-Service Capacity when Market Schedules indicate that a Facility will be dispatched for a Market Service.	Real-time shortfalls and unnecessarily high Market Clearing Prices.	Include an obligation on Market Participants to move their capacity to “In-Service” if AEMO projects a “shortfall” in energy, Contingency Reserve Raise or Regulation Raise
	Notice periods for Available Capacity in submissions appear to be longer than necessary in some cases.	Capacity shortfalls and/or the dispatch of more expensive plant when less expensive plant should have been dispatched instead.	Change the definition of Start Decision Cutoff to reflect the actual state of the Facility.
	Energy Market Clearing Prices reaching the cap due to the prices in submissions rather than real-time shortfalls.	Unnecessarily high Market Clearing Prices	Revisit some of the Market Power Mitigation Strategy changes to ensure bids reflect costs, and correct the rules for setting the Energy Offer Price Ceiling

# Jenny Laidlaw



## The problem:

- **Tied FCESS offer tranches are dispatched on a pro-rata basis (i.e. in proportion to tranche size)**
- Dispatches the maximum number of Facilities – potential increase in FCESS Uplift Payments
- Increases likelihood of dispatching Facilities for negligible Enablement Quantities

## Proposed changes:

- **New tiebreak method for FCESS to**
- Reduce where possible the number of Facilities dispatched for a given FCESS
- Prioritise the dispatch of Facilities that are more likely to have lower FCESS Uplift Payments
- **New method requires AEMO to determine a unique random number (Facility Tiebreak Number) for each Facility for each Trading Day according to a WEM Procedure**

## Proposed FCESS tiebreak order

- Quantities from Interruptible Loads, in ascending order of Facility Tiebreak Number; then
- Quantities from Scheduled Facilities and Semi-Scheduled Facilities with Enablement Minimum  $\leq 0$ , in ascending order of Facility Tiebreak Number; then
- Quantities from Scheduled Facilities and Semi-Scheduled Facilities with Enablement Minimum  $> 0$ , in ascending order of
- Estimated energy dispatch cost based on RTMS (sum of Quantity x LFAOP for tranches up to adjusted Enablement Minimum), then
- Facility Tiebreak Number

**Also proposing to change energy tiebreak method (to use ascending Facility Tiebreak Number)**

- **reduce likelihood of dispatching infeasible energy quantities**

## The problem:

- **WEMDE/DFCM dispatches all available RoCoF Control Service because assumed to be zero cost**
- **Can lead to unnecessary FCESS Uplift Payments if the inertia provided by additional synchronised Facilities is not needed**

**Currently all RoCoF Control Service providers are thermal generators – provide inertia as part of normal operation**

**Seeking a short-term solution pending a broader review of RoCoF Control Service procurement and compensation**

## Proposed changes:

- **Restore mandatory requirement for accredited Facilities to make Real-Time Market Submissions for RoCoF Control Service and offer their full accredited capacity (subject to usual caveats for outages, etc)**
- **Remove FCESS Uplift Payments for RoCoF Control Service provision**
- **AEMO will constrain a Facility on to specifically provide RoCoF Control Service if necessary to maintain Power System Security**
- **A Facility constrained on to provide RoCoF Control Service will be eligible for Energy Uplift Payments**

## The problem:

- **FCESS Uplift Payments intended to keep Market Participants whole when they provide one or more FCESS in a Dispatch Interval**
- **Current calculation covers losses on Enablement Minimum when energy offer price > energy Market Clearing Price (enablement losses)**
- **FCESS Market Clearing Prices can be high enough to cover all or part of a Market Participant's enablement losses – no need for all the current FCESS Uplift Payment**

## Revised FCESS Uplift Payment calculation:

- Estimate Facility dispatch cost to provide cleared Market Services (offer price x quantity for each cleared offer tranche)
- Estimate Facility Real-Time Market base compensation “payment” for the cleared Market Services (Reference Trading Price or Market Clearing Price (as applicable) for the cleared quantities)
- FCESS Uplift Payment =  $\max(0, \text{Estimated dispatch cost} - \text{RTM base compensation})$

## A Facility is eligible for an FCESS Uplift Payment if

- Scheduled Facility or Semi-Scheduled Facility issued a Dispatch Target > 0
- Enabled for Contingency Reserve Raise, Contingency Reserve Lower, Regulation Raise or Regulation Lower
- Not eligible for an Energy Uplift Payment

Also proposing the removal of Estimated FCESS Uplift Payments to reduce cost/ implementation time



Dora Guzeleva

# Market Participants are failing to convert Available Capacity to In-Service Capacity (1)

This leads to real-time shortfalls and unnecessarily high Market Clearing Prices.

# Market Participants are failing to convert Available Capacity to In-Service Capacity (2)

This leads to real-time shortfalls and unnecessarily high Market Clearing Prices.

# Notice periods in some submissions appear to be longer than necessary

This leads to capacity shortfalls and/or the dispatch of more expensive plant when less expensive plant should have been dispatched instead.

# Energy Market Clearing Prices reaching the cap due to the prices in submissions

This behaviour has led to unnecessarily high Market Clearing Prices





## The ERA has identified an issue with the current rules for setting the Energy Offer Price Ceiling that has led to concerns from Market Participants

**Proposal:** Amend the definition of Heat Rate in the rules for setting the Energy Offer Price Ceiling

**Define Heat Rate as the mean heat rate at the minimum stable loading level, based on the best information available to the Economic Regulation Authority, for the highest cost Facility in the SWIS**

Step	Completed By
TDOWG brief	18/07/2024
Rules completed and published for consultation	22/08/2024
Rules consulted	22/08/2024 - 20/09/2024
Rules Made and Gazetted	18/10/2024
Systems implemented	20/11/2024
Commencement of Rules and System Changes, FCESS administered price ends	20-Nov

NOTE: This will complete Stage 1 of our investigation in the FCESS market, we will continue to investigate some of the above issues and those in our Long List of Issues through Stage 2 and our FCESS Requirements and SESSM Review



## Agenda Item 10: WEM Effectiveness Report

Market Advisory Committee (MAC) Meeting 2024\_07\_25

### 1. Purpose

Energy Policy WA to update the MAC on the Scope of Work for the first WEM Effectiveness Report.

### 2. Recommendation

That the MAC:

- notes and provides comment to the Scope of Work for the development of the WEM Effectiveness Report (Attachment 1); and
- discusses the matters raised in section 4 of this paper.

### 3. WEM Effectiveness Report

#### 3.1. Background

- Under clause 2.16.13A of the WEM Rules, the Coordinator is responsible for the development of the market and, with the assistance of the Economic Regulation Authority (ERA) and Australian Energy Market Operator (AEMO), must monitor market design problems or inefficiencies.
- The Coordinator must provide to the Minister a report dealing with the matters identified through its market monitoring activities at least once in every three years, with the first such report due by 1 July 2025 (the WEM Effectiveness Report).

#### 3.2. Scope of Work

- Energy Policy WA has developed Scope of Work for the development of the first WEM Effectiveness Report (Attachment 1).
- The WEM Effectiveness Report will advise the Minister on the effectiveness of the market, present market trends and provide any recommended measures to increase the effectiveness of the market in meeting the new State Electricity Objective that is expected to become operational during 2024.
- The first Report must be provided to the Minister by 1 July 2025.

#### 3.3. Stakeholder Engagement

- Energy Policy WA will consult with the MAC through the MAC meetings and one-to-one meetings with individual MAC members, including AEMO and the ERA.
- Energy Policy WA will publish a draft WEM Effectiveness Report for public consultation.

### 3.4. Matters to be considered in the WEM Effectiveness Report

- Under clause 2.16.13A of the WEM Rules, the Coordinator must monitor market design problems or inefficiencies.
- Under clause 2.16.13B, in carrying out its responsibilities under clause 2.16.13A of the WEM Rules, the Coordinator must also monitor:
  - (a) the effectiveness of the compliance monitoring and enforcement measures in the WEM Rules and Regulations, including, but not limited to:
    - i. the effectiveness of the ERA surveillance activities under sections 2.16A to 2.16D; and
    - ii. the appropriateness of the parameters for determining a Material Portfolio and Material Constrained Portfolio under clauses 2.16C.1 and 2.16C.2;
  - (b) the effectiveness of AEMO in carrying out its functions under the Regulations, the WEM Rules and WEM Procedures;
  - (c) the effectiveness of Network Operators in carrying out their functions under the WEM Rules and WEM Procedures; and
  - (d) the efficiency and effectiveness of the methodologies for determining the Market Price Limits and the Benchmark Reserve Capacity Prices.
- Under clause 2.16.13E of the WEM Rules, the WEM Effectiveness Report must address, but is not limited to, the following matters:
  - (a) market trends, which may include:
    - i. a summary of the information and data compiled by AEMO and the ERA under clause 2.16.1; and
    - ii. any other matter or information the Coordinator considers relevant and appropriate to include;
  - (b) any recommended measures to increase the effectiveness of the market in meeting the Wholesale Market Objectives<sup>1</sup> to be considered by the Minister.

### 4. Questions to the MAC

MAC's views are sought regarding the development of the first WEM Effectiveness Report, including:

- (1) What market design problems or inefficiencies, that have been identified since the commencement of the new market, should be considered; and
- (2) What measures to increase the effectiveness of the market in meeting the new State Electricity Objective should be considered.

### 5. Attachments

- (1) Agenda Item 10 - Attachment 1 - Scope of Work for the development of the WEM Effectiveness Report

<sup>1</sup> The current Wholesale Market Objectives will be replaced by the new State Electricity Objective in 2024, before the publication of the first WEM Effectiveness Report.

# Scope of Work for the Development of the WEM Effectiveness Report

## 1. Introduction

The Coordinator of Energy (Coordinator) is commencing the development of the Wholesale Electricity Market (WEM) Effectiveness Report in accordance with section 2.16 of the Rules.

Under section 2.16, the Coordinator must monitor market design problems and inefficiencies, and provide a report to the Minister at least once every three years (the WEM Effectiveness Report).

The Report must provide the Minister with market trends and any recommended measures to increase the effectiveness of the market. The first Report must be issued by 1 July 2025.

This scope of work outlines the requirements for the development of the Coordinator's WEM Effectiveness Report, in accordance with clause 2.16.13A of the WEM Rules.

## 2. Project Scope

The purpose of this project is to facilitate the development of the WEM Effectiveness Report.

### 2.1 Monitoring the market

Clauses 2.16.13A and 2.16.13B provide that the Coordinator must monitor:

- market design problems and inefficiencies;
- the effectiveness of the compliance monitoring and enforcement measures in the WEM Rules and Regulations, including but not limited to:
  - the effectiveness of the Economic Regulation Authority's (ERA's) surveillance activities under sections 2.16A to 2.16D; and
  - appropriateness of the parameters for determining a Material Portfolio and Material Constrained Portfolio under clauses 2.16C.1 and 2.16C.2; and
- the effectiveness of Australian Energy Market Operator (AEMO) in carrying out its functions under the Regulations, the WEM Rules and WEM Procedures;
- the effectiveness of the Network Operators in carrying out their functions under the WEM Rules and WEM Procedures; and
- the efficiency and effectiveness of the methodologies for determining: the Market Price Limits and the Benchmark Reserve Capacity Price.

### 2.2 The WEM Effectiveness Report

Under Clause 2.16.13D, the Coordinator must provide to the Minister a report dealing with the matters identified in clauses 2.16.13A and 2.16.13B at least once in every three years, with the first such report due by 1 July 2025.



The report, in accordance with clause 2.16.13E, must include the following:

- market trends; and
- any recommended measures to increase the effectiveness of the market in meeting the Wholesale Market Objectives<sup>1</sup> to be considered by the Minister.

## 2.3 Stakeholder Engagement

Energy Policy WA (EPWA) will carry out this work in consultation with:

- The Market Advisory Committee (MAC) through the MAC meetings; and
- AEMO and the ERA through one-to-one meetings, if required.

EPWA will also schedule one-to-one meetings with individual MAC members and other interested stakeholders.

EPWA will seek stakeholders' views by publishing a draft WEM Effectiveness Report for public consultation.

## 3. Project Schedule

The following is an indicative high-level project schedule for the development of the WEM Effectiveness Report

Tasks		Timing
(1)	Seek comments from the MAC on the Scope of Work	25 July 2024
(2)	Stakeholder meetings	August 2024 - October 2024
(3)	Develop a draft WEM Effectiveness Report, and consult with the MAC on it before publication	November 2024 -February 2025
(4)	Publish a draft WEM Effectiveness Report and receive stakeholder submissions	March 2025 - May 2025
(5)	Develop the final WEM Effectiveness Report	May 2025 - July 2025
(6)	Submit the WEM Effectiveness Report to the Minister for Energy	31 July 2025

<sup>1</sup> The current Wholesale Market Objectives will be replaced by the new State Electricity Objective in 2024, before the publication of the first WEM Effectiveness Report.

### A.1.1 WEM Effectiveness Report' structure

Report Sections	Provision	Content	Purpose	Underlying Obligations	Related reports
1 - Monitor market design problems or inefficiencies	2.16.13A	Overview of the market development, including market design problems or inefficiencies.	Report to the Minister on identified market design problems or inefficiencies and the Coordinator's market development reviews, conducted in consultation with the MAC.	many	
2 - Effectiveness of the compliance monitoring and enforcement measures in the WEM Rules and Regulations	2.16.13B(a)	<p>Summary of issues identified in the ERA's compliance report and ERA's actions on:</p> <ul style="list-style-type: none"> <li>• market performance and</li> <li>• compliance</li> </ul> <p>Assessment of the ERA's compliance framework and enforcement strategy.</p>	Report to the Minister on issues with the market performance identified in the ERA's compliance report and the effectiveness of ERA's market compliance enforcement activities.	2.13.1, 2.13.3, 2.13.7, 2.13.16, 2.13.17, 2.13.27, 2.13.36, 2.13.45, 2.13.47, 2.13.48, 2.13.49, 13.49A 2.13.50, 2.16.2A(aA), 2.16.8, 2.16.8A, 2.16.9E, 2.16.9F, 2.16.9, 2.16.11, 2.16.13	<a href="http://erawa.com.au/compliance-framework-and-strategy">compliance-framework-and-strategy - (erawa.com.au)</a>
	2.16.13B(a)(i)	Assessment of the effectiveness of the Economic Regulation Authority's surveillance activities under sections 2.16A to 2.16D.	Report to the Minister on identified market power issues, and the effectiveness of the relevant ERA Guidelines and Procedures, and ERA's surveillance activities.	2.16A1, 2.16A.2, 2.16A3, 2.16A.4, 2.16C.6, 2.16C.7	<a href="http://erawa.com.au/monitoring-the-new-wem">Monitoring the new WEM - (erawa.com.au)</a>  <a href="http://erawa.com.au/portfolio-assessment">Portfolio Assessment - (erawa.com.au)</a>

Report Sections	Provision	Content	Purpose	Underlying Obligations	Related reports
	2.16.13B(a)(ii)	Assessment of the appropriateness of the parameters for determining a Material Portfolio and Material Constrained Portfolio under clauses 2.16C.1 and 2.16C.2.	Report to the Minister on identified issues, and whether the ERA's parameters for determining Material Portfolio and Material Constrained Portfolio are fit to purpose.	2.16B.1, 2.16B.2, 2.16C.1, 2.16C.2	<a href="http://erawa.com.au">Portfolio Assessment - (erawa.com.au)</a>
3 - Effectiveness of AEMO in carrying out its functions under the Regulations, the WEM Rules and WEM Procedures	2.16.13B(b)	TBA	Report to the Minister on identified issues, and on the effectiveness of AEMO in carrying out its functions under the WEM Rules and WEM Procedures.	2.1A.2	<a href="http://erawa.com.au">Market Rules Compliance Reports - (erawa.com.au)</a>  <a href="http://erawa.com.au">compliance-reports - (erawa.com.au)</a>  <a href="http://erawa.com.au">AEMO's compliance - (erawa.com.au)</a>
4 - Effectiveness of Network Operators in carrying out their functions under the WEM Rules and WEM Procedures	2.16.13B(c)	TBA	Report to the Minister on identified issues, and on the effectiveness of Western Power in carrying out its functions under the WEM Rules and WEM Procedures.	2.2C.1	<a href="http://erawa.com.au">Market Rules Compliance Reports - (erawa.com.au)</a>
5 - Efficiency and effectiveness of the methodologies for determining the Market Price Limits and the	2.16.13B(d)	Assessment of the ERA's application, and the efficiency and effectiveness, of the methodologies used to	Report to the Minister on identified issues, and on the efficiency and effectiveness of the methodology for determining the Market Price Limits.		

Report Sections	Provision	Content	Purpose	Underlying Obligations	Related reports
Benchmark Reserve Capacity Prices		determine Market Price Limits.			
		Assessment of the ERA's review of the method used to calculate Benchmark Reserve Capacity Prices.	Report to the Minister on identified issues, and on the efficiency and effectiveness of the methodology for determining the BRCPs.	2.26.1, 2.26.2A, 2.26.2C, 2.26.2L, 2.26.2M, 2.26.2O	<a href="http://erawa.com.au">BRCP and MPL Review 2019 (erawa.com.au)</a>
7- Market trends	2.16.13E(a)	Summary of information the Coordinator considers relevant and appropriate to include in the Report.	Market trend information to support the report.		
7 - Recommended measures to increase the effectiveness of the market in meeting the State Electricity Objective	2.16.13E(b)	Any recommendations on market design and efficiency improvements.	Recommend market design and efficiency improvements for the Minister's consideration.		Coordinator's recommendations from ongoing WEM evolution reviews.

## Agenda Item 11: Market Development Forward Work Program

Market Advisory Committee (MAC) Meeting 2024\_07\_25

### 1. Purpose

- To provide an update on the Market Development Forward Work Program and an overview of the status of MAC working groups.
- Changes to the Market Development Forward Work Program since the previous MAC meeting are shown in **red** in the Tables below.

### 2. Recommendation

- The MAC Secretariat recommends that the MAC notes the updates to the Market Development Forward Work Program provided in Tables 1-3.

### 3. Process

Stakeholders may raise issues for consideration by the MAC at any time by sending an email to the MAC Secretariat at [energymarkets@dmirs.wa.gov.au](mailto:energymarkets@dmirs.wa.gov.au).

Stakeholders should submit issues for consideration by the MAC two weeks before a MAC meeting so that the MAC Secretariat can include the issue in the papers for the MAC meeting, which are circulated one week before the meeting.

Table 1 – Current MAC Working Groups

Working Group	Established	Status	Next steps
<b>WEM Procedures Content Assessment</b>	2 May 2024 MAC Meeting	Delayed	Project to commence following the publication of the Coordinator's response to the independent audit. Membership composition
<b>Essential Systems Services Framework Review</b>	2 May 2024 MAC Meeting	Starting	Membership composition
<b>AEMO Procedure Change</b>	1 May 2017 MAC Meeting	Open	Ongoing process
<b>Power System Security and Reliability Standards</b>	23 November 2023 MAC Meeting	Open	Four stages of work Stage 1 and 2 – completed. Stage 3 – commenced May 2024
<b>Wholesale Electricity Market Investment Certainty Review</b>	20 July 2023 MAC Meeting	Open	Publication of the Consultation Paper on four out of five initiatives. Further meetings in 2024
<b>Reserve Capacity Mechanism Review</b>	21 September 2021 MAC Meeting	Finishing No further meetings	AEMO to determine the sequencing of implementing the RCM Reform Rules
<b>Cost Allocation Review</b>	14 December 2021 MAC Meeting	Finishing No further meetings	Minister to make the WEM Amending Rules. Implementation plan discussed with AEMO
<b>Demand Side Response Review</b>	16 March 2023 MAC Meeting	Finishing No further meetings	Minister to make the WEM Amending Rules. Implementation plan discussed with AEMO
<b>Benchmark Reserve Capacity Price WEM Procedure Review</b>	23 November 2023 MAC Meeting	Completed	Disbanded at the 13 June 2024 MAC Meeting. Will be removed from this table

Table 2 – Market Development Forward Work Program

Review	Issues	Status and Next Steps
Reserve Capacity Mechanism (RCM) Review	A review of the RCM, including a review of the Planning Criterion.	<ul style="list-style-type: none"> <li>• The MAC established the RCM Review Working Group (RCMRWG). Information on the Working Group is available at <a href="https://www.wa.gov.au/government/document-collections/reserve-capacity-mechanism-review-working-group">https://www.wa.gov.au/government/document-collections/reserve-capacity-mechanism-review-working-group</a>, including: <ul style="list-style-type: none"> <li>• the Terms of RCMRWG, as approved by the MAC;</li> <li>• the list of RCMRWG members;</li> <li>• meeting papers and minutes from the RCMRWG meeting on 20 January 2022, 17 February 2022, 17 March 2022, 5 May 2022, 2 June 2022, 16 June 2022, 14 July 2022, 2 July 2022, 13 October 2022, 24 November 2022; 15 December 2022, 1 February 2023, 16 February 2023, 2 March 2023, 22 March 2023, 6 July 2023, 13 July, 30 August 2023.</li> </ul> </li> <li>• The following papers have been released and are available on the RCM Review webpage at <a href="https://www.wa.gov.au/government/document-collections/reserve-capacity-mechanism-review">https://www.wa.gov.au/government/document-collections/reserve-capacity-mechanism-review</a>: <ul style="list-style-type: none"> <li>• the Scope of Works for the review, as approved by the Coordinator;</li> <li>• the Stage 1 Consultation Paper;</li> <li>• the Paper on the Review of International Capacity Mechanisms;</li> <li>• submissions on the Stage 1 Consultation Paper;</li> <li>• the RCM Review Information Paper (Stage 1) and Consultation Paper (Stage 2);</li> <li>• submissions on the RCM Review Consultation Paper (Stage 2);</li> <li>• the RCM Review Information Paper (Stage 2);</li> <li>• the RCM – WEM Amending Rules Exposure Draft;</li> <li>• submissions on the RCM – WEM Amending Rules Exposure Draft;</li> </ul> </li> </ul>



**Table 2 – Market Development Forward Work Program**

Review	Issues	Status and Next Steps
		<ul style="list-style-type: none"> <li>• responses to stakeholder submissions on the Exposure Draft of the RCM Review WEM Amending Rules; and</li> <li>• the Wholesale Electricity Market Amendment (Reserve Capacity Reform) Rules 2023 available at <a href="http://www.wa.gov.au">Wholesale Electricity Market Amendment (Reserve Capacity Reform) Rules 2023 (www.wa.gov.au)</a></li> <li>• The RCMRWG will remain open until AEMO determines the sequencing of the implementation of the RCM Reform Rules, which were made by the then Minister for Energy in early December 2023.</li> </ul>

**Table 2 – Market Development Forward Work Program**

Review	Issues	Status and Next Steps
<p>Cost Allocation Review (CAR)</p>	<p>A review of:</p> <ul style="list-style-type: none"> <li>• the allocation of Market Fees, including behind the meter (BTM) and Distributed Energy Resources (DER) issues;</li> <li>• cost allocation for Essential System Services; and               <ul style="list-style-type: none"> <li>• Issues 2, 16, 23 and 35 from the MAC Issues List (see Table 3).</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The MAC established the Cost Allocation Review Working Group (CARWG). Information on the CARWG is available at <a href="https://www.wa.gov.au/government/document-collections/cost-allocation-review-working-group">https://www.wa.gov.au/government/document-collections/cost-allocation-review-working-group</a>, including:               <ul style="list-style-type: none"> <li>• the Scope of Work for the review, as approved by the Coordinator;</li> <li>• the Terms of Reference for the CARWG, as approved by the MAC;</li> <li>• the list of CARWG members;</li> <li>• meeting papers and minutes from the CARWG meetings on 9 May 2022, 7 June 2022, 30 August 2022, 27 September 2022, 25 October 2022, 29 November 2022, 21 March 2023, 2 May 2023 and 29 August 2023.</li> </ul> </li> </ul> <p>The following papers have been released and are available on the CAR webpage at <a href="http://www.wa.gov.au">Cost Allocation Review (www.wa.gov.au)</a></p> <ul style="list-style-type: none"> <li>• the Consultation Paper;</li> <li>• the International Review;</li> <li>• submissions on the Consultation Paper;</li> <li>• the CAR Information Paper;</li> <li>• the Exposure Draft of the WEM Amending Rules implementing the outcomes of the CAR; and</li> <li>• submissions on the CAR WEM Amending Rules Exposure Draft</li> </ul> <ul style="list-style-type: none"> <li>• The CARWG will remain open until the CAR WEM Amending Rules are made by the Minister and their implementation timeframe is agreed with AEMO.</li> </ul>

**Table 2 – Market Development Forward Work Program**

Review	Issues	Status and Next Steps
		<ul style="list-style-type: none"> <li>the Wholesale Electricity Market Amendment (Cost Allocation Reform) Rules 2024 available at <a href="#">Wholesale Electricity Market Amendment (Cost Allocation Reform) Rules 2024</a></li> </ul>
<p>Review of the Participation of Demand Side in the Wholesale Electricity Market (WEM)</p>	<p>The scope of this review is to:</p> <ul style="list-style-type: none"> <li>identify the different ways that Loads/Demand Side Response can participate across the different WEM components;</li> <li>identify and remove any disincentives or barriers for Loads/Demand Side Response participating across the different WEM components; and</li> <li>identify any potential for over- or under-compensation of Loads/Demand Side Response (including as part of 'hybrid' facilities") as a result of their participation in the various market mechanisms.</li> </ul>	<ul style="list-style-type: none"> <li>The MAC established the Demand Side Response Review Working Group (DSRRWG). Information on the DSRRWG is available at <a href="#">Demand Side Response Review Working Group (www.wa.gov.au)</a>, including: <ul style="list-style-type: none"> <li>the Terms of Reference for the DSRRWG, as approved by the MAC;</li> <li>the list of DSRRWG members;</li> <li>meeting papers and minutes from the DSRRWG meeting on 10 May 2023, 7 June 2023, 5 July 2023, 2 August 2023 and 29 November 2023, 7 February 2024 and 15 February 2024.</li> </ul> </li> <li>The following papers have been released and are available on the DSR Review webpage at <a href="#">Demand Side Response Review (www.wa.gov.au)</a> <ul style="list-style-type: none"> <li>the Scope of Work for the review, as approved by the Coordinator;</li> <li>the Demand Side Response Review Consultation paper;</li> <li>the submissions received on the Demand Side Response Review Consultation paper;</li> <li>the Demand Side Response Review Information Paper;</li> <li>the Demand Side Response Review – WEM Amending Rules Exposure Draft, and</li> <li>the submissions received on the Demand Side Response Review – WEM Amending Rules Exposure Draft.</li> </ul> </li> <li>The DSRRWG will remain open until the DSR WEM Amending Rules are made by the Minister and their implementation timeframe is agreed with AEMO.</li> </ul>

**Table 2 – Market Development Forward Work Program**

Review	Issues	Status and Next Steps
<p>Procedure Change Process (PCP) Review</p>	<p>A review of the PCP to address issues identified through Energy Policy WA's consultation on governance changes.</p>	<ul style="list-style-type: none"> <li>• The MAC discussed a draft Scope of Work for this review at its meeting on 11 October 2022. EPWA has updated the Scope of Works to reflect the MAC discussions.</li> <li>• The Scope of Work for the review, as approved by the Coordinator is available here <a href="http://www.wa.gov.au">Wholesale Electricity Market Procedure Change Process Review (www.wa.gov.au)</a></li> <li>• ACIL Allen has been appointed to assist with the PCP Review.</li> <li>• ACIL Allen engaged with MAC members through a survey and one-on-one consultations between 12 March and 18 April 2024. There were 11 respondents to the PCP survey, out of 19 requests.</li> <li>• On 6 May 2024, the Consultation Paper was released for public consultation. Submissions closed 31 May 2024 with stakeholder submissions published on the Coordinator's website.</li> <li>• <b>The Coordinator received the ACIL Allen report on 28 June 2024 and has 30 business days to respond.</b></li> </ul>

Table 2 – Market Development Forward Work Program

Review	Issues	Status and Next Steps
WEM Investment Certainty (WIC) Review	<p>The WIC Review will consider, design and implement the following five reforms that have been announced by the Minister for Energy, which are aimed at providing further investment certainty to assist the decarbonisation of the WEM:</p> <ol style="list-style-type: none"> <li>(1) changing the Reserve Capacity Price (RCP) curve so it sends sharper signals for investment when demand for new capacity is stronger;</li> <li>(2) a 10-year RCP guarantee for new technologies, such as long-duration storage;</li> <li>(3) a wholesale energy price guarantee for renewable generators, to top up their energy revenues as WEM prices start to decline, in return for them firming up their capacity;</li> <li>(4) emission thresholds for existing and new high emission technologies in the WEM; and</li> <li>(5) a 10-year exemption from the emissions thresholds for existing flexible gas plants that qualify to provide the new flexibility service.</li> </ol>	<ul style="list-style-type: none"> <li>• The MAC established the WIC Review Working Group (WICRWG). Information on the WICRWG is available at <a href="http://www.wa.gov.au">Wholesale Electricity Market Investment Certainty (WIC) Review Working Group (www.wa.gov.au)</a> including: <ul style="list-style-type: none"> <li>• the Terms of Reference for the WICRWG, as approved by the MAC;</li> <li>• the list of WICRWG members;</li> <li>• meeting papers and minutes from the 31 August 2023, 11 October, 8 November, the 6 December 2023, 24 January, the 24 April and <b>29 May 2024</b> WICRWG meeting.</li> <li>• meeting papers from the 29 May 2024 WICRWG meeting.</li> </ul> </li> <li>• The following papers have been released and are available on the WIC Review webpage at <a href="https://www.wa.gov.au/government/document-collections/wholesale-electricity-market-investment-certainty-review">https://www.wa.gov.au/government/document-collections/wholesale-electricity-market-investment-certainty-review</a>, including: <ul style="list-style-type: none"> <li>• the Scope of Work for the review, as approved by the Coordinator.</li> </ul> </li> </ul>

Table 2 – Market Development Forward Work Program

Review	Issues	Status and Next Steps
Review of the Market Advisory Committee (MAC)	The scope of this review is to ensure that the purpose, representation, process and operations of the MAC are fit for purpose, and in particular, that it operates efficiently and provides balanced, timely and useful advice to the Coordinator.	<ul style="list-style-type: none"> <li>• The MAC supported a Scope of Works for this review at its meeting on 8 June 2023, and advised EPWA to further consider the timing of the review. EPWA has updated the Scope of Works to reflect the MAC discussions.</li> <li>• The Scope of Work for the review, as approved by the Coordinator is available here <a href="http://www.wa.gov.au">Market Advisory Committee Review (www.wa.gov.au)</a></li> <li>• ACIL Allen has been appointed to assist with the MAC Review.</li> <li>• On 7 May 2024, the Consultation paper was released for public consultation. Submissions closed 31 May 2024 with stakeholder submissions published on the Coordinator’s website.</li> <li>• <b>The Coordinator received the ACIL Allen report on 28 June 2024 and will publish a response in due course.</b></li> </ul>
WEM Procedure Content Assessment project	The scope of this project is to: Review current WEM Procedures against a criterion developed by the Procedure Change Process Review and determine if a matter should be addressed in the WEM Rules or WEM Procedures.	<ul style="list-style-type: none"> <li>• At the 2 May 2024 MAC meeting, the MAC established the WEM Procedure Content Assessment Working Group and: <ul style="list-style-type: none"> <li>• supported the Scope of Work; and</li> <li>• requested that the project schedule be revised.</li> <li>• Following feedback at the 2 May 2024 MAC meeting and other discussions, the Terms of Reference is being revised.</li> </ul> </li> </ul>

**Table 2 – Market Development Forward Work Program**

Review	Issues	Status and Next Steps
<p>Review of the Power System Security and Reliability (PSSR) Standards</p>	<p>The scope of this review is to:</p> <ul style="list-style-type: none"> <li>• review the various PSSR related provisions in the instruments governing power system security and reliability in the SWIS;</li> <li>• assess whether the combination of existing standards is effective to ensure power system security and reliability can be maintained;</li> <li>• develop proposals for a single end-to-end PSSR standard and a centralised governance framework; and</li> <li>• draft amending Rules and other regulatory changes, as necessary.</li> </ul>	<ul style="list-style-type: none"> <li>• The MAC established the PSSR Standards Working Group (PSSRSWG). Information on the PSSRWG is available at <a href="http://www.wa.gov.au">Power System Security and Reliability (PSSR) Standards Working Group (www.wa.gov.au)</a> including: <ul style="list-style-type: none"> <li>• the Terms of Reference for the PSSRSWG, as approved by the MAC;</li> <li>• the Scope of Work</li> <li>• the list of PSSRSWG members;</li> <li>• meeting papers and minutes for the 14 December 2023, 1 February 2024, 29 February 2024, and 18 April 2024 PSSRSWG meetings.</li> </ul> </li> </ul>
<p>Review of the Essential Systems Services (ESS) Framework</p>	<p>The Coordinator of Energy (Coordinator) is conducting a review of the ESS Framework (the Review), incorporating:</p> <ul style="list-style-type: none"> <li>• a review of the ESS Process and Standards under Section 3.15 of the WEM Rules; and</li> <li>• a review of the Supplementary Essential Systems Services Procurement Mechanism (SESSM) under clause 2.2D.1(h).</li> </ul> <p>The purpose of this Review is to assess whether the FCESS framework in the WEM Rules is operating efficiently to ensure power system security and reliability can be maintained at the lowest cost to consumer.</p>	<ul style="list-style-type: none"> <li>• At the 2 May 2024 MAC meeting, the MAC supported the Scope of Work for this Review pending an update to note that any issues regarding the WEM foundation principles were out of scope but would be captured. EPWA updated the Scope of Work to reflect the MAC feedback.</li> <li>• The MAC approved the establishment of a MAC Working Group to support the Review. <ul style="list-style-type: none"> <li>• The Scope of Work for the Review, as approved by the Coordinator is available <a href="#">here</a></li> </ul> </li> </ul>



**Table 2 – Market Development Forward Work Program**

Review	Issues	Status and Next Steps
Forecast quality	Review of Issue 9 from the MAC Issues List (see Table 2).	<ul style="list-style-type: none"> <li>This review has been deferred.</li> </ul>
Network Access Quantity (NAQ) Review	Assess the performance of the NAQ regime, including policy related to replacement capacity, and address issues identified during implementation of the Energy Transformation Strategy (ETS).	<ul style="list-style-type: none"> <li>The timing for this review is to be determined.</li> </ul>
Short Term Energy Market (STEM) Review	Review the performance of the STEM to address issues identified during implementation of the ETS.	<ul style="list-style-type: none"> <li>This review has been deferred.</li> </ul>

**Table 3 – Other Issues**

Id	Submitter/Date	Issue	Status
9	Community Electricity November 2017	Improvement of AEMO forecasts of System Load; real-time and day-ahead.	Consideration of this issue has been deferred.