



Rule Change Notice: Allowable Revenue Framework (GRC_2024_01)

This Rule Change Notice is given under subrule 132(1) of the Gas Services Information (**GSI**) Rules.

Submitter: Australian Energy Market Operator (AEMO)

Date submitted: 28 August 2024

The Rule Change Proposal

AEMO proposes that its three-year allowable revenue framework under the GSI Rules be replaced with an annual budget determined through consultation with Market Participants and interested stakeholders, with a requirement for a nil surplus or deficit over the long-term.

AEMO's Rule Change Proposal seeks to remove the requirement for the Economic Regulation Authority (ERA) to determine AEMO's budget. Instead, it is proposed that the budget and fee design process features the following elements:

- annual priorities, activities, budget and fee setting using established processes with requirements to consult with its stakeholders;
- major project delivery reporting, with the ability for stakeholders to provide input into the scope, sequency and prioritisation of projects;
- transparency around AEMO's performance through annual reporting; and
- review and oversight of the effectiveness of this new framework by the Coordinator of Energy.

The Rule Change Proposal, which is attached to this notice, gives complete information about:

- the relevant references to the GSI Rules and the proposed amendments to the clauses; and
- AEMO's description of how the proposal will better address the GSI Objectives.

Background of the Proposal Development

AEMO submitted two in-period adjustments for its 2022-25 Allowable Revenue period to the ERA due to requiring additional expenditure for its operations and capital expenditure.

In its Final Determination of AEMO's second in-period budget adjustment, the ERA highlighted issues with the current regulatory framework and stated it supported replacing it with a more workable arrangement.

AEMO submitted the Rule Change Proposal to the Coordinator on 28 August 2024 and discussed the proposal at the 29 August 2024 Gas Advisory Board (GAB) meeting.

On 3 September 2024, the Coordinator sought clarification under subrule 129(3) of the GSI Rules about how AEMO proposes to govern its budget during the planning and delivery phases of its work.

On 13 September 2024, AEMO submitted an updated Rule Change Proposal including the requested clarifications.

Decision to Progress the Rule Change Proposal

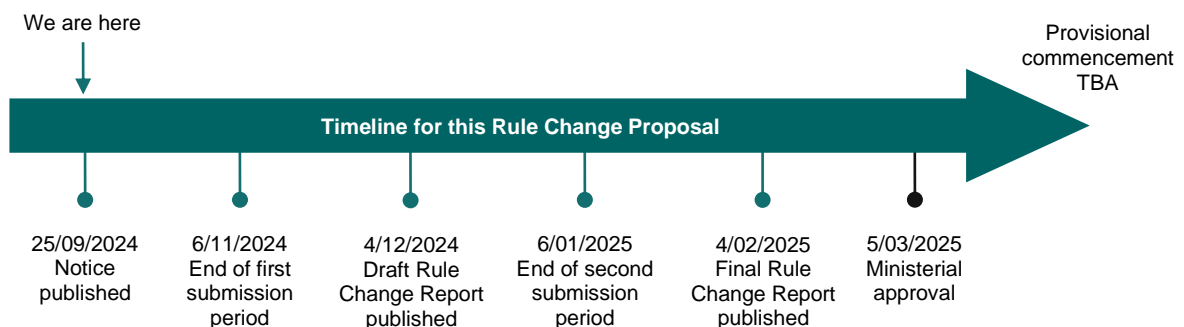
The Coordinator has decided to progress the Rule Change Proposal using the Standard Rule Change Process based on a preliminary assessment that it:

- is not inconsistent with the GSI Objectives;
- raises a valid issue within the GSI Rules;
- does not create other problems within the GSI Rules; and
- is not part of an upcoming review or reform program.

Timeline

AEMO’s Rule Change Proposal affects Protected Provisions under subrule 124(2)(d) of the GSI Rules. Consequently, if the Coordinators final decision is to amend the Protected Provisions, the Minister is responsible for approving the Final Rule Change Report under Rule 144 of the GSI Rules.

This Rule Change Proposal will be progressed under the Standard Rule Change Process described in Part 8, Division 4 of the GSI Rules. The projected timeline for processing this proposal is:



It is noted that under this timeline, Ministerial approval will fall during the Government’s caretaker period. However, the timeline may change if any submission periods or the timelines for the Rule Change Reports are extended. In any case, the Minister can extend the timeline for approving the Final Rule Change Report.

Call for Submissions

The Coordinator invites interested stakeholders to make submissions on this Rule Change Proposal.

While the Coordinator is interested in any feedback regarding the proposal, stakeholders are asked in particular to comment on whether they agree with AEMO's and the ERA's assessment of the current allowable revenue framework.

The submission period is 30 Business Days from the Rule Change Notice publication date. Submissions must be delivered to the Coordinator by **5:00 pm (AWST) on 6 November 2024**.

The Coordinator prefers to receive submissions by email, using the submission form available at [Rule Change Process \(www.wa.gov.au\)](http://www.wa.gov.au) sent to energymarkets@demirs.wa.gov.au.

Submissions may also be sent to the Coordinator by post, addressed to:

Energy Policy WA
Attn: Director, Wholesale Markets
Level 1, 66 St Georges Terrace Perth, WA, 6000
Locked Bag 100
East Perth WA 6892



GSI Rule Change Proposal Form

Rule Change Proposal ID: GRC_2024_01

Date received: 13 September 2024

Change requested by:

Name:	Kate Ryan
Phone:	██████████
Email:	████████████████████
Organisation:	Australian Energy Market Operator
Address:	GPO Box 7096, Cloisters Square, Perth, WA 6850
Date Submitted:	28 August 2024
Proposed urgency:	High
Rule Change Proposal Title:	New AEMO Budget and Fee Determination Framework
GSI Rule(s) affected	Table of Contents, rules 107, 108, 108A, 108B, 109, 110, 111A, 114, 116, 117 and the Glossary

Introduction

Rule 129 of the Gas Services Information Rules (**GSI 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@demirs.wa.gov.au

Post to: Energy Policy WA
Attn: Director, Wholesale Markets
Level 1, 66 St Georges Terrace Perth, WA, 6000
Locked Bag 100
East Perth WA 6892

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 GSI Rules; and
- describe how the proposed rule change would allow the GSI Rules to better address the GSI Objectives.

The GSI Objectives are to promote the long term interests of consumers of natural gas in relation to:

- (a) the security, reliability and availability of the supply of natural gas in the State;
- (b) the efficient operation and use of natural gas services in the State;
- (c) the efficient investment in natural gas services in the State; and
- (d) the facilitation of competition in the use of natural gas services in the State.

Details of the Proposed Rule Change

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

1.1 Background

AEMO recovers the costs for performing its functions under the GSI Rules from Gas Market Participants via GSI 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 an amount it considers meets the requirements under Part 7 of the GSI Rules and the ERA's funding proposal guidelines¹.

In addition to this process, the GSI Rules require AEMO to make in-period submissions to the ERA if AEMO forecasts it will overspend the approved Allowable Revenue or Forecast Capital Expenditure by more than the lower of 10% or \$0.5 million.

The ERA develops and applies stringent guidelines 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.

This current framework is akin to a full, incentive-based regulatory framework typically applied to large, commercial monopoly utility businesses, able to retain a proportion of any profits made in the period. This type of framework is not fit for purpose for a not-for-profit entity such as AEMO in the context of the energy transition, as outlined below.

A similar framework applies to AEMO's activities in the Wholesale Electricity Market (WEM) in the South West Interconnected System, where AEMO undertakes market operation, system operation and system planning functions. AEMO operates as an integrated business, drawing efficiencies from applying common processes and operating model to the delivery of its WEM and GSI functions.

1.2 The case for change

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

The application of Part 7 of the GSI Rules and associated guidelines, along with similar rules and guidelines for the WEM, 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.

¹ Available at: <https://www.erawa.com.au/cproot/22925/2/-AR.6---Final-funding-proposal-guideline.PDF>

² 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>

Energy 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 regarding what AEMO and Gas Market Participants may be required to do, and the associated costs. This has been the experience in recent years in the WEM, with the gas market also potentially subject to disruption as the energy transition progresses³.

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 rigidity of the prudence and efficiency tests under the current rules, does not allow the ERA sufficient flexibility to approve a three-year forecast that will be subject to changing priorities and limited visibility of project scope.

The design of the current allowable revenue framework has led to:

1. 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.
2. Delays to implementation of Major Projects required to enable and manage the risks of the energy transition.
3. Uncertainty for Gas Market Participants regarding the delivery of critical projects due to funding uncertainty, and an inability to predict future fees, ultimately affecting consumers.
4. High costs of administration, with each combined WEM and GSI submission costing AEMO at least \$1 million, driven by the requirements of the current regime to provide very detailed costing and information, with ERA and Gas Market Participant costs in addition.

AEMO considers a 'set and forget' funding arrangement that establishes a multi-year fixed budget via rigid ex-ante scrutiny, is not appropriate where there is uncertainty surrounding policy, regulatory outcomes and project scope.

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.⁴

1.3 Design principles

AEMO has identified the following key objectives for any new budget and fee framework:

1. **Transparency** – Ongoing transparency for Gas Market Participants of AEMO's priorities, operational activities, proposed major investments, and associated costs.

Greater transparency will place a strong incentive for AEMO to demonstrate value and control costs where possible, and provide Gas Market Participants with a mechanism to hold AEMO to account. Transparency can be achieved through providing forward-looking estimates of AEMO's

³ For example, while it remains subject to government consideration, the recent Parliamentary inquiry into the WA domestic gas policy has identified a number of potentially significant changes – refer to the Inquiry website for more information [https://www.parliament.wa.gov.au/Parliament/commit.nsf/\(EvidenceOnly\)/9DC94BF5BD78908E482589DA001F2EB9](https://www.parliament.wa.gov.au/Parliament/commit.nsf/(EvidenceOnly)/9DC94BF5BD78908E482589DA001F2EB9).

⁴ Ibid.

activities, priorities, costs and fees, which would provide Gas Market Participants with the certainty to budget for and determine what costs can reasonably be passed on to consumers.

2. **Engagement and accountability** – Direct engagement with Gas Market Participants and interested stakeholders.

This would allow those paying market fees to provide input when AEMO plans, prioritises, costs and delivers major projects. This could include providing input on the scope, technical solution and timing, and providing advice on what reflects value for money. This also includes reporting on delivery and actual costs.

3. **Certainty** – Certainty that AEMO’s cost base is reasonable and sufficient to ensure Gas 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 the confidence and access to funding to allow it to deliver projects in the most efficient and timely manner, without unnecessary project risk.

4. **Flexibility** – A shorter forecast period and more regular revision of budgets and fees would allow work programs and deliverables to adapt to changing priorities.

This is particularly important when AEMO is implementing reform initiatives and responding to fast-paced change. In this context, a lack of flexibility can lead to higher administration costs, increased risk and greater uncertainty for all parties. This reduces the likelihood of projects being delivered as efficiently and effectively as they otherwise could.

5. **Timeliness** – The rapidly changing energy landscape necessitates the determination of budgets and fees closer to the time that they will apply.

Taking this short-term budgeting approach will ensure the costs and project estimates used to determine the forecast revenue and fees remain up-to-date and accurate. Greater accuracy provides cost and fee certainty. Shorter-term budgeting must be balanced with longer-term visibility and certainty around upcoming activities. This balance can be provided by regular revisions and earlier stakeholder input into future priorities.

6. **Simplicity** – The budget and fee determination process should be as mechanistic as possible and should use existing business as usual (BAU) processes where practicable.

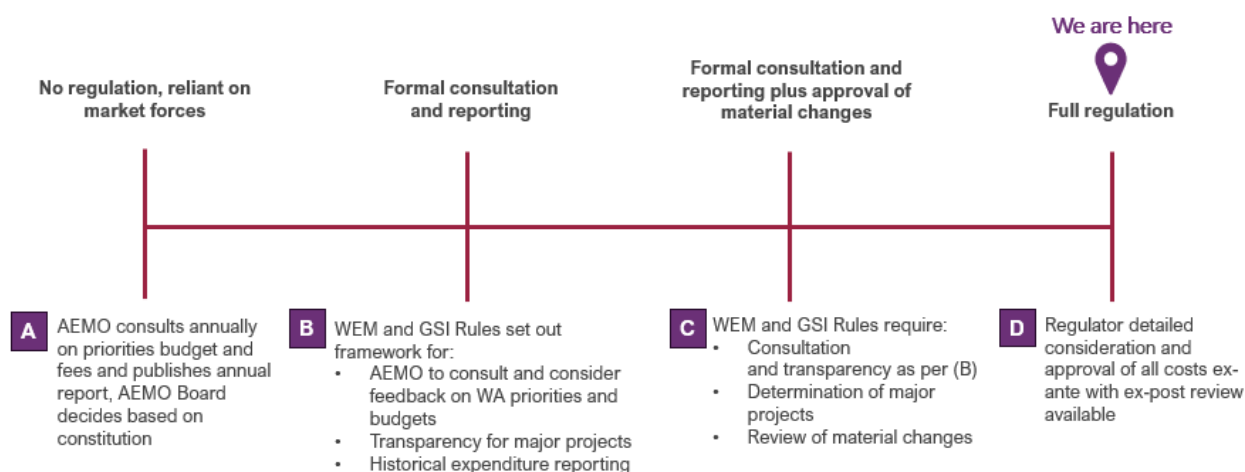
Assessment of ongoing, recurrent operating costs should be relatively light touch, with greater scrutiny placed on major (large-scale, high-cost or long-timeframe) projects.

7. **Oversight** – Adequate checks and balances are required to ensure an oversight body is able to undertake an independent assessment of AEMO’s funding framework.

External oversight should be complementary to, not a replacement for, AEMO’s internal governance process. An external oversight body should have the ability to intervene where it considers AEMO’s investments are not delivering outcomes for consumers consistent with the Gas 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. 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



Any new 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.

1.4 AEMO’s proposed new budget and fee determination process

AEMO proposes to replace the current revenue and fee determination process outlined in Part 7 of the GSI Rules with a new process.

The proposed design accommodates the following key elements⁵:

1. **Annual priorities, activities and budget and fee setting:** established processes for internal and external governance, and a requirement for AEMO to consult with stakeholders on its priorities, activities and resulting budget and fees.
2. **Major Project delivery reporting:** A requirement 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, and to monitor their delivery.
3. **Transparency around AEMO’s performance:** Annual reporting on AEMO’s performance against its budget and other key operational measures.
4. **Review and oversight of AEMO’s budget and fees process:** Monitoring and reporting by the Coordinator of Energy on the effectiveness of this new framework following the first full cycle.

The key change from the existing framework is the change in the external governance body. Under the existing framework, the ERA is the third party responsible for assessing the prudence and efficiency of AEMO’s costs and forecasts. As raised previously, the constraints of the current framework mean the ERA is not often in the best position to do this.

AEMO therefore proposes under the new framework that the external governance role shifts to the organisations who ultimately pay the fees resulting from AEMO’s activities – Gas Market Participants. The new framework substitutes the rigidity of the current arrangements for greater transparency and flexibility in ongoing project delivery. This is achieved by facilitating greater engagement with Gas Market Participants in budget setting and major investments.

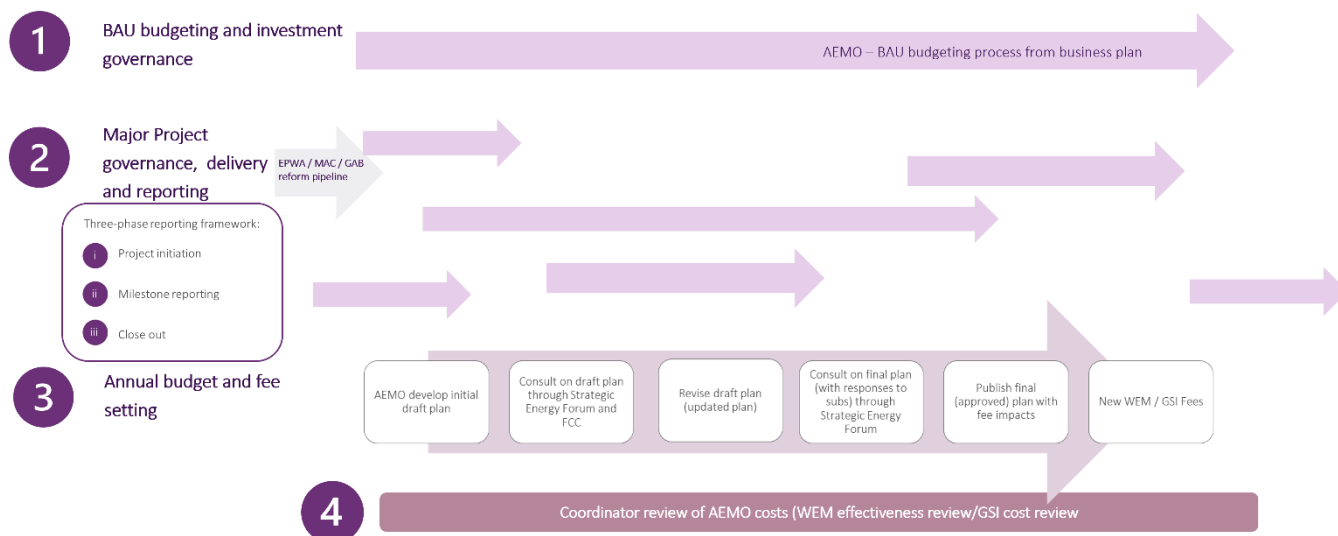
The robustness of the information provision requirements under the current allowable revenue process will be retained under the proposed new framework. AEMO will also remain subject to its robust internal

⁵ As considered in options B and C in the spectrum of options presented in Figure 1.

governance arrangements, which includes the requirement to produce businesses cases and analysis to support its capital projects, as well as an annual corporate planning and budget cycle which already includes public consultation. The key change under the new process is that AEMO intends to provide more of this information publicly, earlier in the planning cycle, to facilitate more meaningful engagement with stakeholders.

Figure 2 shows that the proposed new Annual Budget and Fees process leverages AEMO’s internal budgeting process, taking two snapshots of the work program and associated costs each year to form the basis of the draft and final Annual Budget and Fees documents.

Figure 2: Alignment of budget and fee setting and reporting



Further detail on the key elements of the proposed budget and fee setting process is provided in the following sections.

1.4.1 Annual priorities, activities and budget and fee setting

1.4.1.1 Internal governance arrangements

AEMO’s current robust internal governance arrangements will continue to apply to the new budget and fee setting process. AEMO is a not-for-profit public company limited by guarantee incorporated under the *Corporations Act 2001 (Cth)*. AEMO operates on a cost-recovery basis, whereby it only recovers the actual costs of providing market and power system services in line with its functions. AEMO is committed to transparent and accountable financial and risk management.

AEMO’s Board

AEMO’s Board is responsible for overall governance of the organisation, including overseeing its activities to ensure it meets its responsibilities under relevant laws and regulations as well as approving AEMO’s annual budget and expenditures (including the extent and use of management delegations for expenditure below approved thresholds). The Board also monitors the performance and cost-effectiveness of, and risks associated with, AEMO’s operations and systems.

Collectively the Board possesses the core skills and experience prescribed in the AEMO Constitution and Board charter⁶ and comprises an independent Chair, a Managing Director (who is also the Chief Executive Officer (CEO)), and eight non-Executive Directors. The Board is ultimately accountable to AEMO’s members (60 % Australian Governments and 40% industry and market participants).

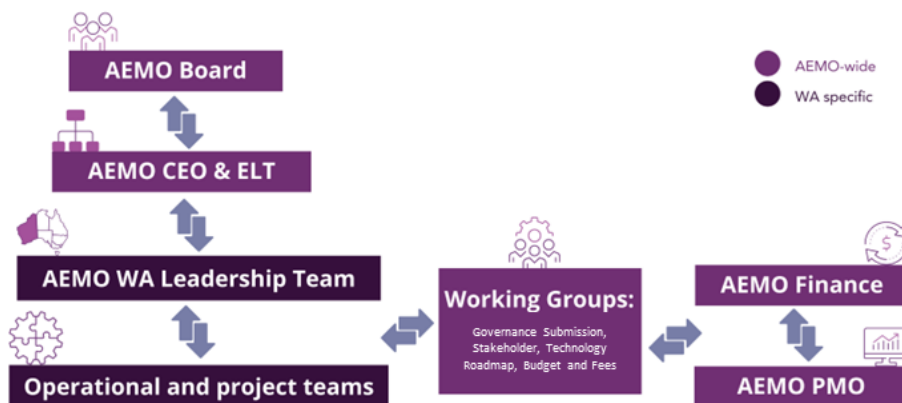
⁶ More information can be found here: <https://aemo.com.au/about/corporate-governance/governance-processes-and-policies>.

Executive Management Team

The Board delegates the day-to-day management of AEMO to the Managing Director & CEO, assisted by AEMO's executive leadership team (ELT). The ELT has authority over all AEMO jurisdictions and has a permanent and active presence in WA. Executive committees are established around key programs of work and functions. They are responsible for overseeing the implementation of strategic initiatives and key programs of work to achieve AEMO's vision and purpose.

Key members of the ELT also sit on WA investment committees, which provide scrutiny and challenge on budget and fee estimates. The ELT provides ongoing financial stewardship and is responsible for ensuring the WA projects and services are delivered at the lowest practicably sustainable cost. Figure 3 below shows how AEMO's financial governance hierarchy works in practice.

Figure 3: AEMO's financial governance hierarchy



Financial Governance

AEMO has a Finance and Governance team which is responsible for establishing, maintaining and improving AEMO's financial, risk and governance policies, procedures and systems. AEMO's finances are managed in line with AEMO's financial principles and budget.

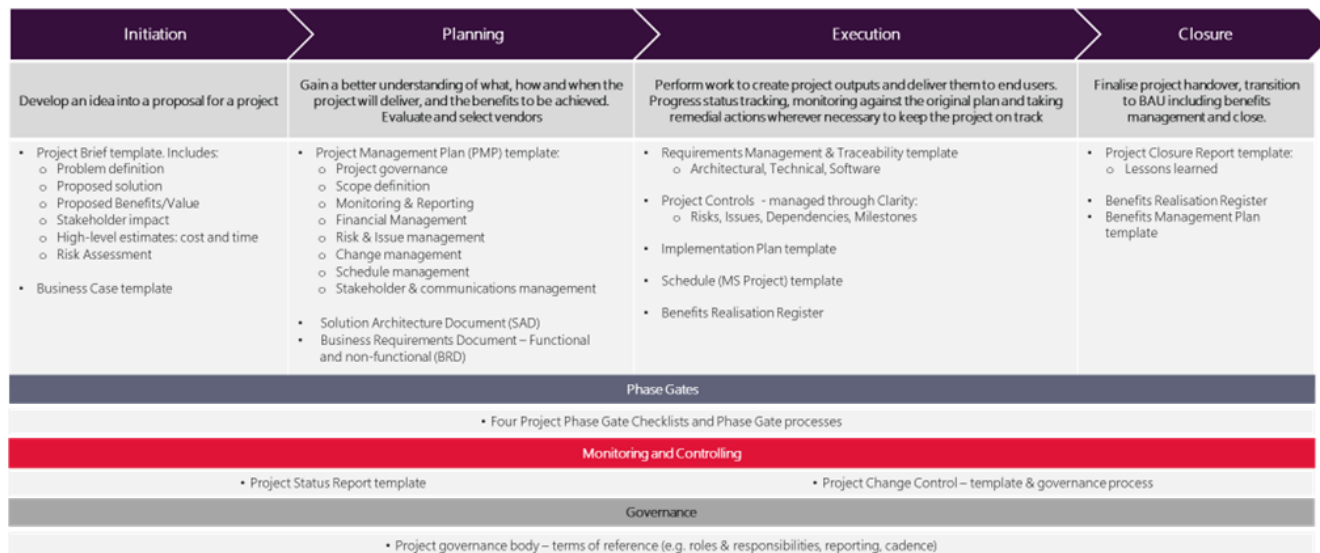
An important feature of AEMO's broader financial governance processes is the development and approval of investment requests. The review and approval of investment requests, as well as project delivery, is governed by AEMO's Project Management Framework. Capital projects are subject to a detailed investment request, which outlines the following considerations:

- Problem/opportunity
- Strategic driver
- Investment rationale
- Value/benefit
- Proposed solutions
- Cost estimates
- Options considered
- Change impacts/interdependencies
- Risks and contingency

These investment requests are subject to scrutiny and challenge from the ELT and AEMO's Board. Project investment approval is subject to a stage gate process, and ongoing reporting to the ELT and Board is required for major programs of work. The Board is responsible for approving budget and fee estimates.

Figure 4 summarises AEMO’s investment approval cycle. This detailed top-down governance approach is well established within AEMO and will continue for all investments made under the new budget and fees framework.

Figure 4: AEMO’s investment approval cycle



Under the new framework outlined in this proposal, AEMO also intends to make investment briefs available for consideration during the relevant stakeholder consultation processes (noting that some information may need to be redacted due to confidentiality requirements). This approach is consistent with the current allowable revenue framework, whereby business cases and written evidence and analysis is shared with the ERA and made publicly available if confidentiality restrictions allow. Stakeholder feedback will then inform further consideration and any decisions by the AEMO Board and Management.

AEMO’s internal governance processes help establish a clear rationale for expenditure at the outset of the budget cycle and before commencing investment in Major Projects. Cost estimates are based on the best information available at the time, and there is continued monitoring throughout execution, with a formal change management process for when project assumptions invariably change.

1.4.1.2 External governance – stakeholder consultation

AEMO proposes to amend the GSI Rules to include a requirement for AEMO to:

- consult with stakeholders on its priorities, activities and resulting budget and fees annually, and to respond to any stakeholder feedback received; and
- publish its plan and final budget and fees prior to the start of a financial year.

Stakeholder consultation on AEMO’s priorities, activities and the associated budget and fees will occur in advance of AEMO Board approval to provide visibility of AEMO’s activities and likely costs, and provide a genuine opportunity for stakeholders to be engaged. This will include a forward estimate of AEMO’s budget over at least a three-year period, to provide stakeholders with ongoing visibility on the likely trajectory of costs and fees.

In practice, AEMO proposes:

- Early engagement, including via AEMO’s Finance Consultation Committee (FCC)⁷ and WA Strategic Energy Forum, late in each calendar year, on AEMO’s priorities, activities, and estimated budget and fees for the upcoming Financial Year.

⁷ More information on the FCC is available at: <https://aemo.com.au/consultations/industry-forums-and-working-groups/list-of-industry-forums-and-working-groups/financial-consultation-committee>

- Publication of a draft annual budget and fees outlining AEMO's priorities, activities and resulting budget and fees as influenced through early engagement activities by April ahead of the start of the upcoming Financial Year. This will be out for consultation over a period of at least 20 Business Days.
- Publication of the final annual budget and fees and responses to feedback by 30 June for the forthcoming Financial Year. The budget for the upcoming Financial Year would then be fixed. Estimates for the outer Financial Years will be included for context and fee smoothing, and will be revised on a rolling annual basis.

The intent of this process is to complement AEMO's existing governance framework and provide greater opportunities for stakeholder input and direct engagement than the current Allowable Revenue process.

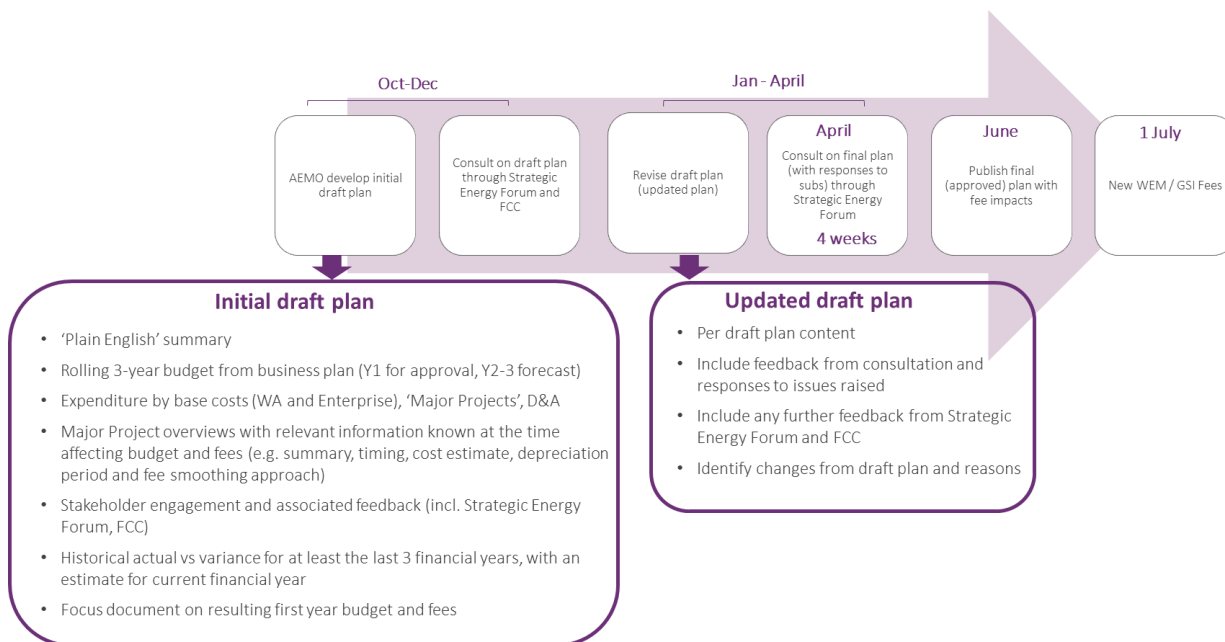
Table 1 compares the engagement approach under the current Allowable Revenue with that under the proposed Annual Budget and Fees process.

Table 1: Comparison of AEMO's stakeholder engagement approach under existing and proposed frameworks

Engagement type	Existing Allowable Revenue process	Proposed Annual Budget and Fees process
Initial engagement – strategy and priority setting	Preparation for initial Allowable Revenue submission through various AEMO forums	Early consultation on proposed activities and priorities in preparation for draft Annual Budget and Fees through various AEMO forums
First round of feedback	Publication of AEMO's initial Allowable Revenue submission ERA issues paper raising key issues/questions and request for stakeholder submissions ERA-led forum	Publication of draft Annual Budget and Fees with call for submissions (see section 1.4.1.2 for content) AEMO-led forums
Stakeholder feedback	Publication of submissions	Publication of submissions
Response to feedback	ERA draft decision summarising AEMO's initial submission, stakeholder feedback and ERA's initial views	Publication of revised Annual Budget and Fees with summary of, and responses to, feedback

The proposed points for external engagement throughout the year are shown in Figure 6.

Figure 5: External engagement on Budget and Fees



This external governance of AEMO’s annual budget setting process will be complemented with direct stakeholder engagement on investment in Major Projects, which is based on AEMO’s National Electricity Market (NEM) Reform Delivery Committee process. The Major Projects process is described in section 1.4.2.

1.4.1.3 Content of Annual Budget and Fees

AEMO proposes to establish a minimum level of information to be published as part of the Annual Budget and Fees in the GSI Rules. The minimum level of information and the process for consultation, are outlined in the proposed amendments to Part 7, Division 2 of the GSI Rules and associated glossary terms, and include:

- AEMO’s priorities, enterprise-wide and for the WA functions, incorporating feedback for early engagement where relevant.
- Estimated expenditure for the current Financial Year and commentary on any material variances.
- The proposed budget for the next Financial Year showing the breakdown of capital and operating expenditure by expense type, and separating ‘base’ operating expenditure from Major Projects.
- Information on Major Projects relevant to budgets and fees as available depending on which stage of the project lifecycle it is in.
- Forecasts for the following two years to show expenditure trajectories and provide context for any budget and fee smoothing.
- The unadjusted revenue path, estimated GSI Fees and the impact of each expense type on those estimates.
- Information on revenue or fee smoothing options considered and the approach used in developing the Annual Budget and Fees with reasons.
- Details of stakeholder engagement already undertaken, and proposed for the future, with any material feedback and AEMO’s response.

As the proposed new process is embedded, AEMO intends to work with stakeholders to ascertain the type and granularity of information stakeholders find valuable. AEMO expects the process will continue to evolve as stakeholders' needs change.

The intent of the proposed new framework is to provide better information to Gas Market Participants, and engage on our priorities and activities directly, rather than through a third party (in this case the ERA). The type of information and granularity of the information underpinning our budget and fee setting will not change from the current Allowable Revenue process, however more of it will be available to all stakeholders and can be adapted over time to suit stakeholder needs.

The following Table 2 shows the information provided to stakeholders under the current Allowable Revenue compared with the proposed new Annual Budget and Fees framework.

Table 1: Comparison of content published under existing and proposed frameworks

Key content	Existing Allowable Revenue process	Proposed Annual Budget and Fees process
Governance and procurement arrangements, including evidence of competitive procurement and market testing	✓	✓
Expenditure forecasting methods	✓	✓
Industry trends and emerging issues	x	✓
AEMO strategic priorities	✓	✓
WA priorities and alignment of work program and costs to WA functions and industry priorities	x	✓
Expenditure performance in last 3 years	✓	✓
Performance against KPIs	x	✓
Performance in project delivery	x	✓
Unsmoothed revenue forecast by category for next 3 years	✓	✓
Fee smoothing options, analysis and approach	x	✓
Smoothed revenue by category for next 3 years	x	✓
Capital expenditure by category for next 3 years	✓	✓
Major Project information / business cases based on lifecycle stage with cost benefit analysis, options analysis and assessment criteria	x	✓
Impact of Major Projects on fees	x	✓
Operating expenditure forecast by category for next 3 years	✓	✓

Key content	Existing Allowable Revenue process	Proposed Annual Budget and Fees process
Evidence of the deliverability of the proposed work program	x	✓
Opex projects	✓	✓
Stakeholder engagement activities undertaken and planned	x	✓
Stakeholder feedback and responses	✓	✓
Risk assessments	✓	✓
Benchmarking (overall and project)	✓	✓
Estimated GSI Fees including trajectory	✓	✓
Annual financial reporting for prior year	✓	✓

1.4.1.4 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. Given the relatively small scale of AEMO’s GSI functions, fees can be particularly sensitive to relatively small changes in AEMO’s activities. This volatility in fees from one year to the next is inconsistent with Gas Market Participants’ desire for fee certainty and stability.

AEMO proposes to include a new principle in subrule 108(1) of the GSI Rules to allow it to either recover a shortfall or retain any excess revenue related to its costs⁸ 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 consult with stakeholders on smoothing options as part of its annual determination of its budget and fees.

⁸ AEMO’s proposal only relates to smoothing for AEMO’s costs. 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. Subrules 110A(3) and 110B(3) of the GSI 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. The Regulator and Coordinator Fees are relatively small compared to AEMO’s costs, meaning that smoothing of these will provide little impact.

1.4.2 Major Project governance, delivery and reporting

AEMO undertakes projects to implement energy reforms, maintain and upgrade its systems, and to deliver its functions. AEMO acknowledges that the costs of major projects need to be considered earlier than has been the case recently for WEM reforms, and that stakeholders need an opportunity to provide input into the timing, prioritisation and in some cases scope of these projects – many of which also have implementation costs for Gas Market Participants. Early consultation on this rule change proposal has reinforced this as a key stakeholder requirement.

To enable this, AEMO proposes establishing the concept of a ‘Major Project’ and an associated requirement for stakeholder consultation throughout the initiation and delivery of Major Projects. As such, AEMO proposes to introduce the requirement on AEMO to consult with the Gas Advisory Board (GAB) to determine whether a project is a Major Project. AEMO will also be required to provide additional information throughout the lifecycle of the project or program. More detail around the governance and reporting processes that will be implemented for Major Projects is outlined below.

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 the proposed new subrules 108(5) and 108(6) of the GSI Rules. In response to consultation on a draft of this Rule Change Proposal, AEMO proposes this to include consideration of the impact on AEMO, Gas Market Participants, and the operation of the gas market. The additional reporting obligation is captured in the proposed new subrule 108(7) of the GSI Rules.

AEMO considers Major Projects could include any of the following programs or projects:

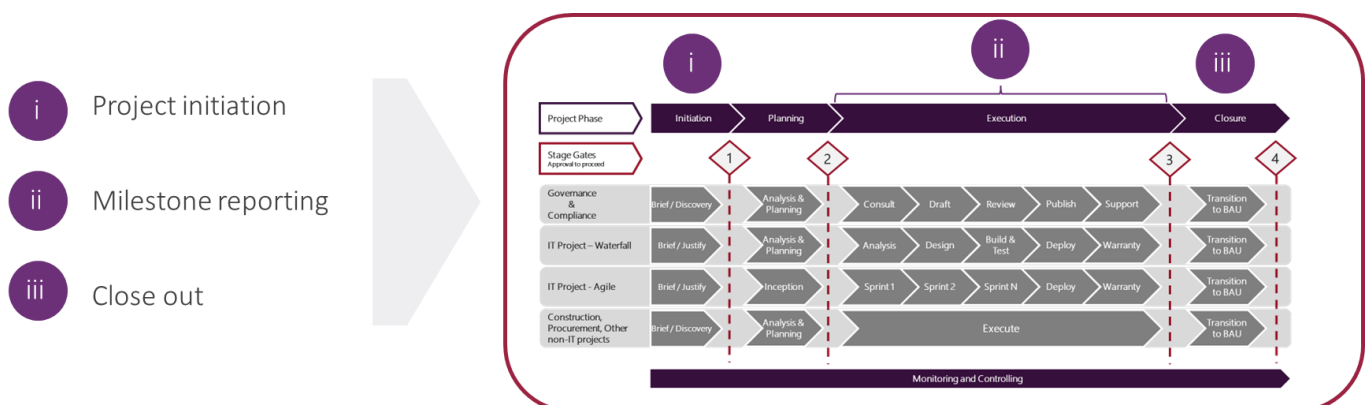
- a major Government-led reform or market development project or program of work;
- a major change to a function, responsibility, obligation or power of AEMO under these rules; and
- a major change to any of the systems (hardware or software) AEMO uses in the performance of its functions, responsibilities,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

If AEMO (in consultation with the GAB) determines a project is a Major Project, it will become subject to engagement relevant stakeholders and the GAB. The GAB may be requested to provide advice on these projects to AEMO and/or the Coordinator. This function is proposed to be included as new subrule 108(8) of the GSI Rules.

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

Similar to the annual budget process, the process for identifying, initiating and undertaking Major Projects aligns with AEMO’s internal processes – namely AEMO’s investment planning and governance frameworks, as outlined in Figure 6.

Figure 6: 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 Gas Market Participant impacts including cost and change management;
 - key assumptions; and
 - key risks with any proposed mitigation measures.
- GAB to provide feedback of the project brief, including on whether the project should be a Major Project.
- GAB and AEMO to agree an indicative milestone reporting plan.

2. Milestone reporting

- Provide visibility of the delivery progress of a Major Project, including material variances (+/-) and reason for variances related to:
 - technical solution;
 - timing;
 - AEMO's cost estimate and fee impact;
 - key assumptions;
 - any known information on impacts to Gas Market Participant including cost and change management; and
 - risks and/or controls.
- GAB 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 Gas Market Participants (if known);
 - project timelines, including any challenges or opportunities;
 - key risks and success of mitigation measures;
 - lessons learnt and overall project commentary; and
 - any feedback received from Gas Market Participants (as applicable).
- Documentation of project outcomes to be published to provide transparency and inform the delivery of future projects.

While AEMO does not propose to include this level of detail in the GSI Rules, this information has been provided to outline how it would engage with stakeholders in practice (as additional context for consideration of the proposed Amending Rules).

AEMO intends that the Major Projects reporting functions would be similar to those of the NEM Reform Delivery Committee⁹. This group has been established as an industry-wide body tasked with providing advice on a reform implementation roadmap for the NEM that appropriately sequences and seeks to achieve least whole of system cost for implementation of reforms, and supports the overall delivery of the reform portfolio.

AEMO expects the first priority of the GAB would be to collaborate with AEMO and Energy Policy WA to develop a 'GSI reform roadmap', similar to that produced for the NEM¹⁰, after which it will be the group providing input into, and receiving program implementation documentation. Similarly, AEMO would seek to produce materials similar to the initiative briefs and business cases produced for the NEM.¹¹

1.4.3 Transparency around AEMO's performance

1.4.3.1 Annual financial reporting

AEMO considers the transparency around its annual financial reporting to be critical to stakeholders understanding of AEMO's finances and financial performance.

Subrule 111A(1)(b) of the GSI Rules requires AEMO to publish its actual financial performance against the Annual Budget and Fees for the previous financial year.¹² Under the new budget and fees framework, AEMO will continue to publish its financial reports following the end of the financial year (by 31 October).

1.4.3.2 Annual performance reporting

Under the new framework, AEMO will provide visibility of its performance on non-financial matters. This is consistent with stakeholder feedback during engagement on an early draft of this Rule Change Proposal.

AEMO's priorities and performance measures form part of its annual strategic corporate plan. AEMO proposes a new obligation to report on its performance against these priorities and measures. The performance report would provide a summary of AEMO's achievements and performance against the measures, identify actions to address any areas of underperformance, and highlight any changes to measures proposed in the forthcoming reporting period.

1.4.4 Review and oversight of AEMO's budget and fees process

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.

AEMO therefore considers it important to maintain the ability for an independent party to review the way it determines its budget and fees, to ensure the framework is delivering benefits for energy consumers consistent with the GSI Objectives.

AEMO proposes to include new rule 110 of the GSI Rules to provide the Coordinator with the ability to review both the effectiveness of AEMO in carrying out its obligations under the proposed new framework, and the effectiveness of the process itself.

In addition, AEMO has proposed:

- the Coordinator considers the timing of each framework review such that reviews themselves do not become administratively burdensome; and

⁹ More information on the scope and operation of the NEM Reform Delivery Committee are available at: <https://aemo.com.au/en/consultations/industry-forums-and-working-groups/list-of-industry-forums-and-working-groups/reform-delivery-committee>

¹⁰ The NEM Reform Implementation Roadmap is available at: <https://aemo.com.au/initiatives/major-programs/nem-reform-implementation-roadmap>

¹¹ Ibid.

¹² AEMO's financial reports are available at: <https://aemo.com.au/en/energy-systems/electricity/wholesale-electricity-market-wem/wa-allowable-revenue/western-australian-financials>

- a requirement for the Coordinator to provide notification of their intent to undertake a review of the GSI Annual Budget and Fees framework, and publish the actions to be undertaken in response to the review.

Practically, AEMO expects the Coordinator would undertake a review of the proposed new framework at the same time it undertakes the comparative review under the WEM Rules. AEMO has proposed this occurs at the same time as the second WEM effectiveness review which is required to be completed in 2028. This will allow a thorough review of the effectiveness, benefits, and suitability of the new framework based on two-to-three years of operation, which may include the delivery of several Major Projects.

2. Explain the reason for the proposed 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, including for example actions stemming from the Inquiry into the WA Domestic Gas Policy¹³, or any significant changes to GSI requirements resulting from WA's energy transition.

AEMO is a facilitator of the energy transition and must be able to respond quickly to the changing needs of the power system and market. Both AEMO and Gas Market Participants will benefit from an environment in which AEMO can secure funding on an annual basis, and provide certainty and visibility around its key priorities and investments. AEMO therefore considers the rule changes outlined in this proposal to be essential to the efficient management of the energy transition.

AEMO's next allowable revenue period (AR7) extends 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 2024. AEMO therefore proposes that the necessary amendments to introduce a new, fit-for-purpose budget and fees framework are progressed as a matter of urgency. This will ensure the new framework can be implemented in time for the 2025-26 Financial Year and provide those immediate benefits around forward-looking Gas Market Participant Market Fees, Major Projects and AEMO's funding requirements.

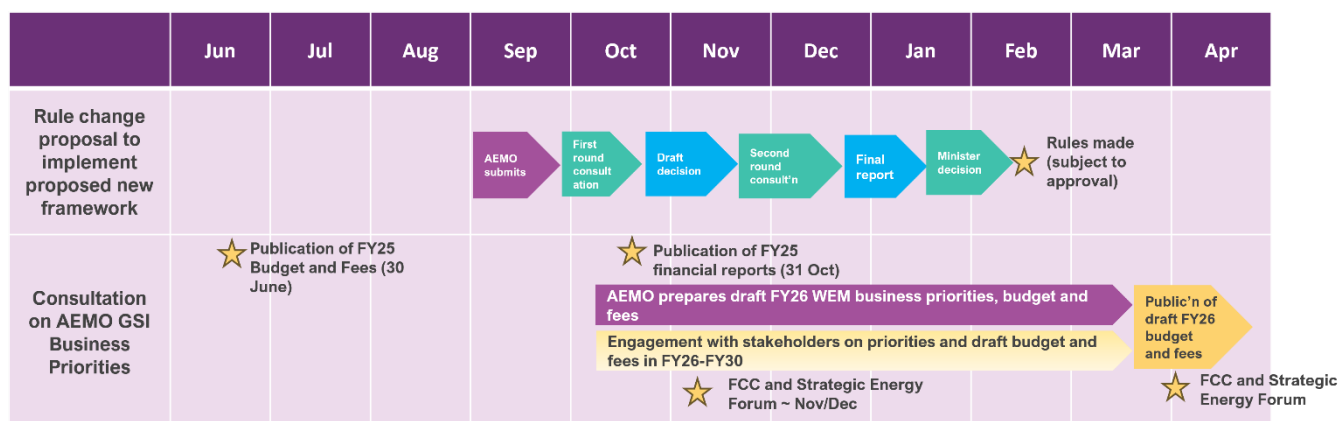
Any delay to the progression of this rule change proposal may result in AEMO being required to submit a proposal under the existing allowable revenue process, with full oversight by the ERA. The risks and costs associated with this process have been outlined in the first section of this rule change proposal.

The timeline set out in Figure 8 summarises the Allowable Revenue rule change proposals and consultation on Major Projects, strategy, priorities and the resulting budget and fees over coming months.

¹³ Available at:

[https://www.parliament.wa.gov.au/Parliament/commit.nsf/\(Report+Lookup+by+Com+ID\)/27F837EAB987BD9548258B790020F885/\\$file/20240814%20-%20RPT%20-%20DOMGAS%20FINAL%20updated%20for%20web.pdf](https://www.parliament.wa.gov.au/Parliament/commit.nsf/(Report+Lookup+by+Com+ID)/27F837EAB987BD9548258B790020F885/$file/20240814%20-%20RPT%20-%20DOMGAS%20FINAL%20updated%20for%20web.pdf)

Figure 8: Timeline for proposed rule changes and consultation



3. Provide any proposed specific changes to particular GSI 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 Part 7, Divisions 2 and 3 in their entirety. The proposed new budget and fee framework has been included as new Division 2.

It should be noted rules 107 to 114 and rule 116 are Protected Provisions and therefore this Rule Change Proposal must be endorsed by the Minister for Energy as part of the Rule Change Process.

AEMO expects the proposed new rules should be similarly protected, and therefore has not proposed to amend subrule 142(2) of the GSI Rules.

AEMO proposes the following amendments to the GSI Rules.

TABLE OF CONTENTS

Division 1 AEMO functions for ~~Allowable Revenue~~ determining annual budget and fees 18

107 ~~AEMO functions for determination of Allowable Revenue by ERA~~ determining annual budget and fees 18

Division 2 Determination of AEMO’s annual budget and fees 72

108 Determination of AEMO’s Annual Budget and Fees23

109 Annual financial and performance reporting234

110 Coordinator review of Annual Budget and Fees235

~~**Division 2 Powers of ERA to determine Allowable Revenue**.....18~~

~~108 [Blank].....23~~

~~108A ERA to determine Allowable Revenue and Forecast Capital Expenditure for AEMO 23~~

~~108B Transitional provisions for the Review Period from 1 July 2022 to 1 July 2025 24~~

~~109 Matters for consideration by ERA in determining Allowable Revenue and Forecast Capital Expenditure.....24~~

~~110 ERA may adjust Allowable Revenue or Forecast Capital Expenditure.....25~~

~~**Division 2A ERA Regulator Fees**..... Error! Bookmark not defined.~~

~~**Division 2B Coordinator Fees**..... Error! Bookmark not defined.~~

~~**Division 3 AEMO Budget**.....26~~

111	[Blank].....	26
111A	Determination of the AEMO Budget	26
...		
114	AEMO may recover AEMO's functions, costs, Regulator Fees and Coordinator Fees	27
...		

Part 7 Revenue, Budget, Fees and Charging

Division 1 AEMO functions for ~~Allowable Revenue~~ determining Annual Budget and Fees

107 AEMO functions for ~~determination of Allowable Revenue by ERA~~ determining Annual Budget and Fees

- (1) Subject to the requirements of this Part, AEMO may recover its costs for performing its functions under the GSI Act, the GSI Regulations and GSI Rules.

Explanatory Note

Proposed new Division 2 is intended to replace the existing framework for AEMO's Allowable Revenue and Forecast Capital Expenditure under Divisions 2 and 3 with the new Annual Budget and Fees framework.

More information is provided in section 1.4 of this Rule Change Proposal.

Explanatory Note

Proposed new subrule 108(1) outlines the principles AEMO must apply in seeking to recover its costs.

More information is provided in section 1.4.1.2 of this Rule Change Proposal.

Division 2 Determination of AEMO's Annual Budget and Fees

108 Determination of AEMO's Annual Budget and Fees

- (1) AEMO must seek to recover its 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, subject to subrules 108(1)(e) to (g);
 - (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) if costs incurred by AEMO relate to both the performance of functions in connection with the GSI Rules and the performance of AEMO's other functions, the costs must be allocated on a fair and reasonable basis between the respective functions;

- (d) costs incurred by AEMO are only those that would be incurred by a prudent provider acting efficiently;
- (e) if AEMO recovers an excess of revenue over expenditure in a Financial Year, it may roll over the excess to a later Financial Year (or later Financial Years) so as to reduce revenue requirements in the later Financial Year or years;
- (f) AEMO may recover a shortfall of revenue as against expenditure for the provision of a particular service/function in a later financial year or later financial years; and
- (g) AEMO may take any other action it considers desirable to smooth the impact of actual or anticipated cost variations on Registered Participants.

Explanatory Note

Proposed new subrule 108(2) outlines the process and timing requirements for AEMO's Annual Budget and Fees, with subrule 108(2)(a) providing a mechanism for AEMO to undertake early consultation on its business activities and priorities, in addition to an annual formal consultation process outlined in subrules 108(2)(b) and (c).

More information is provided in section 1.4.1.1 of this Rule Change Proposal.

- (2) AEMO must adhere to the following requirements in developing its Annual Budget and Fees:
 - (a) undertake initial consultation on its proposed activities and priorities, and indicative budget and GSI Fees, prior to the publication of its draft Annual Budget and Fees under subrule 108(2)(b);
 - (b) by 30 April each year, publish on the GSI Website a draft Annual Budget and Fees for public consultation for no less than 20 Business Days; and
 - (c) by 30 June each year, publish on the GSI Website the final Annual Budget and Fees, including the level of GSI Fees that will apply for the coming Financial Year, alongside:
 - i. AEMO's response to the issues raised in submissions on the draft Annual Budget and Fees; and
 - ii. an explanation of any material changes from the draft Annual Budget and Fees.

Explanatory Note

Proposed new subrule 108(3) is introduced to give AEMO the flexibility to engage more broadly on its priorities and activities throughout the year, in a fit-for-purpose manner.

- (3) AEMO may undertake any further consultation on its proposed activities, priorities, budget and estimated level of GSI Fees as it considers necessary throughout the Financial Year.
- (4) AEMO must include the following information, as a minimum, in its Annual Budget and Fees published under subrule 108(2):
- (a) relevant information regarding AEMO's activities and priorities for the coming Financial Year;

Explanatory Note

Proposed new subrule 108(4) is designed to outline the minimum requirements that must be included in AEMO's draft and final Annual Budget and Fees documents. AEMO acknowledges there must be sufficient information available to enable Gas Market Participants and interested stakeholders to make a considered submission on AEMO's draft Annual Budget and Fees under subrule 108(2)(b).

The proposed drafting of subrule 108(4) covers the material information AEMO considers relevant to this assessment, but allows discretion to include more information where relevant. In practice AEMO will work with stakeholders to ensure there is an appropriate balance of information such that stakeholders are informed but not overwhelmed with the amount of information provided.

- (b) relevant information on any key projects or programs;
- (c) 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 final Annual Budget and Fees;
- (d) the budget for the coming Financial Year identifying forecast expenditure, which must be classified as:
- i. forecast base operating expenditure;
 - ii. financing costs;
 - iii. depreciation and amortisation; or
 - iv. forecast capital expenditure;
 - v. forecast expenditure associated with Major Projects, as determined under subrule 108(5), identified as either capital or operating expenditure
- (e) the level of GSI Fees for the coming Financial Year, including the impact of each expenditure category under subrule 108(4)(d) on GSI Fees;
- (f) information on each Major Project determined under subrule 108(5), as relevant to the Annual Budget and Fees;
- (g) forecast expenditure for a minimum of two Financial Years following the coming Financial Year, classified to the extent possible, by the same categories as the proposed budget;
- (h) the unadjusted revenue path and GSI Fees resulting from the Annual Budget and Fees;
- (i) information on the revenue or fee smoothing options considered by AEMO in developing its Annual Budget and Fees, with reasons for the smoothing approach used, if any; and

- (j) details of any additional stakeholder engagement activities undertaken under subrule 108(2)(a) or 108(3), and any feedback received.

Explanatory Note

Proposed new subrules 108(5) to 108(7) outline the new framework for Major Projects as discussed in section 1.4.2 of this Rule Change Proposal. The Major Projects framework is designed to identify projects that stakeholders should have the opportunity to understand in greater detail, and require AEMO to provide the appropriate information on the progress of these projects on a regular basis.

Subrules 108(5) and 108(6) provide the criteria for Major Projects, and 108(7) provides an overview of the additional obligations that the determination of a project as a Major Project will trigger.

- (5) AEMO may determine any of the following types of projects and programs to be a 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 GSI Rules;
 - (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 GSI Rules; or
 - (d) any other program or project raised by a Gas Market Participant, the Gas Advisory Board or other relevant stakeholder for consideration by AEMO as a Major Project.
- (6) For the purposes of making a determination under subrule 108(5), AEMO must:
- (a) consider the potential impact of the project or program on AEMO, Registered Participants and the operation of the Gas Market, having regard to the:
 - i. scope of change;
 - ii. cost; and
 - iii. timing (including AEMO's delivery timeframe); and
 - (b) consult with the Gas Advisory Board and other relevant stakeholders.
- (7) If AEMO determines a project or program to be a Major Project under subrule 108(5), AEMO must:
- (a) publish detailed information on the Major Project;
 - (b) engage with Registered Participants and other relevant stakeholders as required; and
 - (c) report to the Gas Advisory Board on the plan for, and progress of, the delivery of the Major Project.
- (8) The Gas Advisory Board may provide advice on Major Projects, as requested or required by AEMO or the Coordinator.

Explanatory Note

Subrule 108(9) is an optional provision for inclusion. AEMO would welcome feedback from interested stakeholders, and consideration by the Coordinator, as to whether the option of providing further guidance on these processes would be beneficial.

- (9) AEMO may develop and publish guidelines on the GSI Website regarding its Annual Budget and Fees process or the requirements for Major Projects under this rule 108.

Explanatory Note

Proposed subrule 109(1)(a) is consistent with the drafting in existing subrule 111A(1)(b) of the GSI Rules and retains the requirement for publication of the annual financial report. New subrule 109(1)(b) is a new requirement for AEMO to report on its actual performance against its key priorities and functions.

These reporting requirements are intended to provide additional transparency and accountability with respect to AEMO's financial and non-financial performance. See section 1.4.3 of this rule change proposal for further detail about the type of information AEMO will include in this report.

109 Annual financial and performance reporting

- (1) By 31 October each year, AEMO must publish on the GSI Website:
- (a) a financial report showing AEMO's actual financial performance against its final Annual Budget and Fees published under subrule 108(2)(c) for the previous Financial Year; and
 - (b) a performance report providing a summary of AEMO's performance against its key performance measures for the previous Financial Year.

Explanatory Note

Rule 110 provides an ability for the Coordinator to review AEMO's costs and the Annual Budget and Fees process should the Coordinator consider costs incurred do not reflect those of a prudent service provider acting efficiently.

Subrule 110(2) is designed to ensure reviews do not occur too frequently that they become an administrative burden and result in costs that outweigh the benefits of the review (for AEMO and Gas Market Participants).

Subrules 110(3) and (4) relate to notification of stakeholders that a review will be undertaken, the outcomes of that review, and any actions to be undertaken.

110 Coordinator review of Annual Budget and Fees

- (1) The Coordinator may, from time to time, decide to undertake a review of:
- (a) the effectiveness of AEMO in carrying out its obligations under Part 7, Division 2; and

(b) the effectiveness of the process for determining AEMO's Annual Budget and Fees outlined in Part 7, Division 2.

- (2) When deciding whether to undertake a review under subrule 110(1), the Coordinator must consider the timing of the last review under the GSI Rules.
- (3) The Coordinator must notify AEMO and Gas Market Participants of the decision to undertake a review under subrule 110(1) prior to the commencement of the review.
- (4) The outcomes of a review under subrule 110(1), and any actions intended to be undertaken by AEMO or the Coordinator to address any identified issues must be published on the Coordinator's Website.

Explanatory Note

Division 2 is proposed to be deleted in its entirety and replaced with the above drafting.

~~Division 2 — Powers of ERA to determine Allowable Revenue~~

~~108 — [Blank]~~

~~108A — ERA to determine Allowable Revenue and Forecast Capital Expenditure for AEMO~~

- ~~(1) — The ERA must determine the Allowable Revenue and Forecast Capital Expenditure for AEMO for each Review Period for performing its functions, in accordance with this Part.~~
- ~~(2) — By 31 October of the year prior to the start of a Review Period, AEMO must submit a proposal to the ERA for its Allowable Revenue and Forecast Capital Expenditure for the performance of its functions over that Review Period, in accordance with the proposal guidelines referred to in subrule 109(7)(a).~~
- ~~(3) — By 31 March of the year in which the Review Period commences, the ERA must publish on its website a draft determination of AEMO's proposed Allowable Revenue and Forecast Capital Expenditure for public consultation.~~
- ~~(4) — The ERA must prepare and publish on its website its final determination of the Allowable Revenue and Forecast Capital Expenditure of AEMO by 30 April of the year in which the Review Period commences.~~
- ~~(5) — Where the ERA does not determine the Allowable Revenue and Forecast Capital Expenditure of AEMO by the date in subrule 108A(4) or 108B(1)(d), the GSI Fees calculated under Division 4 of Part 7 of the Rules for the current Financial Year continue to apply until the ERA makes a determination.~~
- ~~(6) — AEMO's proposal under subrule 108A(2) or 108B(1)(b) or application for adjustment under subrule 111A(4) or 111A(5) must, to the extent practicable, identify proposed costs that are associated with a specific project or where not practicable, a specific function or functions.~~

108B ~~Transitional provisions for the Review Period from 1 July 2022 to 1 July 2025~~

~~(1) Notwithstanding rule 108A the following apply:~~

- ~~(a) the ERA 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 ERA for the Review Period by 31 December 2021;~~
- ~~(c) the ERA 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 ERA 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.~~

109 ~~Matters for consideration by ERA in determining Allowable Revenue and Forecast Capital Expenditure~~

- ~~(1) The ERA must take the matters set out in this rule into account, and any other matters the ERA considers relevant to its considerations when—
 - ~~(a) determining the Allowable Revenue and Forecast Capital Expenditure of AEMO under rule 108A and 108B; and~~
 - ~~(b) approving adjustments to the current Allowable Revenue and Forecast Capital Expenditure for AEMO under rule 110.~~~~
- ~~(2) The Allowable Revenue of AEMO must be sufficient to cover the forward looking costs of performing AEMO's functions in accordance with the following principles—
 - ~~(a) recurring expenditure requirements and payments are recovered in the year of the expenditure; and~~
 - ~~(b) capital expenditures are 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.~~~~
- ~~(3) The Allowable Revenue and Forecast Capital Expenditure for AEMO must include only costs which would be incurred by a prudent provider of the services provided by AEMO in performing its functions, acting efficiently, seeking to achieve the lowest practicably sustainable cost of delivering AEMO's functions, while effectively promoting the GSI Objectives.~~
- ~~(4) Where possible, the ERA should benchmark the Allowable Revenue and Forecast Capital Expenditure for AEMO against the costs of providing similar functions and/or projects in other jurisdictions.~~
- ~~(5) Where costs incurred by AEMO relate to both the performance of functions in connection with the Rules, and the performance of AEMO's other functions, the costs must be allocated on a fair and reasonable basis between—~~

- (a) ~~costs recoverable as part of AEMO's Allowable Revenue and Forecast Capital Expenditure; and~~
 - (b) ~~other costs not to be recovered under the Rules.~~
- (6) ~~The ERA may approve project and/or function costs or, if some costs do not meet the requirements of this rule 109, reject fully or partially or substitute those costs and recommend to AEMO that some of the costs be considered in a subsequent Review Period and/or in a reassessment.~~
- (7) ~~The ERA must consult on and issue guidelines in relation to this Division, including:~~
- (a) ~~proposal guidelines, which must consider how uncertain future projects may be dealt with, including any required approvals before the initiation of new projects, and provide clarity and guidance to AEMO and Gas Market Participants about the level of detail regarding projects, functions and costs expected in AEMO's proposal under rule 108A(2) or rule 110(1); and~~
 - (b) ~~regulatory reporting guidelines, which:~~
 - i. ~~must contain annual reporting obligations and provide clarity and guidance to AEMO and Gas Market Participants about the scope of reporting and how AEMO should annually report to the ERA and Gas Market Participants; and~~
 - ii. ~~are aimed at providing transparency and accountability in relation to AEMO's functions and Allowable Revenue and Forecast Capital Expenditure.~~
- (8) ~~The ERA may amend guidelines issued under subrule 109(7) at any time, following consultation which allows a reasonable opportunity for relevant stakeholders to present their views.~~

110 ~~ERA may adjust Allowable Revenue or Forecast Capital Expenditure~~

- (1) ~~The ERA must reassess and may adjust the Allowable Revenue and/or Forecast Capital Expenditure for the current Review Period for AEMO where —~~
- (a) ~~AEMO applies to the ERA to reassess the Allowable Revenue under subrule 111A(4); and/or~~
 - (b) ~~AEMO applies to the ERA to reassess the Forecast Capital Expenditure under subrule 111A(5).~~
- (2) ~~During a Review Period, AEMO may apply to the ERA for approval of an adjustment to its Allowable Revenue and/or Forecast Capital Expenditure for that Review Period,::~~
- (a) ~~costs previously rejected pursuant to rule 109;~~
 - (b) ~~new costs for project and/or functions since AEMO'S proposal for its Allowable Revenue and Forecast Capital Expenditure for the current Review Period; and~~
 - (c) ~~costs which were not able to be estimated with reasonable confidence at the time of the relevant Allowable Revenue and Forecast Capital Expenditure review process.~~

- (3) ~~If the ERA receives an application from AEMO under subrule (2), the ERA may make a determination to adjust the Allowable Revenue and Forecast Capital Expenditure for the Review Period for AEMO.~~
- (4) ~~The ERA may seek information from AEMO in relation to the performance of its functions under this Division 2.~~
- (5) ~~The ERA must undertake a such consultation as the ERA considers appropriate in the circumstances, in relation to applications for adjustment of the current Allowable Revenue and Forecast Capital Expenditure for AEMO referred to in subrule (1), and may do so in relation to an application for adjustment under subrule (2).~~

...

Explanatory Note

Division 3 is proposed to be deleted in its entirety and replaced with the above drafting for new Division 2.

Division 3 — AEMO Budget

111 [Blank]

111A — Determination of the AEMO Budget

- (1) ~~AEMO must—~~
- (a) ~~by 30 June each year, publish on the GSI Website the AEMO Budget for the AEMO costs AEMO will incur in performing its functions for the coming Financial Year; and~~
 - (b) ~~by 31 October each year, publish on the GSI Website a financial report showing AEMO's actual financial performance against its budget for the previous Financial Year, in accordance with the regulatory reporting guidelines issued by the ERA in accordance with subrule 109(7)(b).~~
- (2) ~~AEMO must ensure its budget is:~~
- (a) ~~consistent with the Allowable Revenue and Forecast Capital Expenditure determined by the ERA for the relevant Review Period and any adjustment; and~~
 - (b) ~~reported in accordance with the regulatory reporting guidelines issued by the ERA in accordance with subrule 109(7)(b).~~
- (3) ~~Where the revenue earned for the functions performed by AEMO via GSI Fees in the previous Financial Year is greater than or less than AEMO's expenditure for its functions for that Financial Year, the AEMO Budget must take into account any difference between GSI 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 the amount of any revenue shortfall.~~

- (4) ~~Where, taking into account any adjustment under subrule (3), the AEMO 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 \$0.5 million greater than the Allowable Revenue determined by the ERA, AEMO must apply to the ERA to reassess AEMO's Allowable Revenue for the Review Period.~~
- (5) ~~Where the AEMO Budget is likely to result in capital expenditure, over the relevant Review Period, being at least the lower of 10% of the Forecast Capital Expenditure or \$0.5 million, greater than AEMO's Forecast Capital Expenditure determined by the ERA, AEMO must apply to the ERA to reassess AEMO's Forecast Capital Expenditure for the Review Period.~~
- (6) ~~AEMO must make an application to the ERA under subrule 4 or with respect to Allowable Revenue under subrule 110(2) by 31 March for the ERA to make a determination of the Allowable Revenue before the commencement of the Financial Year to which the relevant AEMO Budget relates.~~
- ...

Explanatory Note

Division 4 is proposed to be amended to reflect the naming of the new Annual Budget and Fees framework.

Division 4 GSI Fees

114 AEMO may recover AEMO's functions, costs, Regulator Fees and Coordinator Fees

- (1) For each Financial Year, AEMO may recover from Registered Shippers and Registered Production Facility Operators:
- (a) an amount equal to ~~the~~AEMO's final Annual Budget and Fees published under subrule 108(2)(c);
- ...
- ...

116 Basis for calculation of GSI Fees

- (1) The GSI Fees F for the GSI Invoice Period p in Financial Year y is calculated as:

$$F(p) = [\text{Budget}(y) + \text{Regulator Fees}(y) + \text{Coordinator Fees}(y)] \times \frac{\text{days in } p}{\text{days in } y} + U(p) - UR(p)$$

Where:

$\text{Budget}(y)$ is ~~the~~AEMO's final Annual Budget and Fees published under subrule 108(2)(c) for Financial Year y ;

Regulator Fees(y) are the Regulator Fees for Financial Year y;

Coordinator Fees(y) are the Coordinator Fees for Financial Year y;

U(p) is the sum of any GSI Fees invoiced for preceding GSI Invoice Periods but unpaid at the time GSI Fees for GSI Invoice Period p are invoiced and which AEMO reasonably believes it will not be able to recover from the party invoiced (and has not been previously reallocated as a U(p) amount); and

UR(p) is the sum of any amounts included in the calculation of U for a preceding GSI Invoice Period which have been recovered since the GSI Fees for GSI Invoice Period p-1 were invoiced.

...

117 AEMO to issue GSI Invoice

- (1) Where AEMO receives Aggregated Shipper Delivery Quantities under rule 115 within 20 Business Days after the end of the relevant GSI Invoice Period, AEMO must, within 30 Business Days of the end of that period:

...

- (b) issue a GSI Invoice to each Registered Shipper for that period, which separately itemises:
- (i) [Blank]
 - (ii) the proportion of the GSI Fee attributable to ~~the~~ AEMO's final Annual Budget and Fees published under subrule 108(2)(c) for that period;

...

...

- (3) Where AEMO is able to calculate the Aggregated Daily Actual Flow Data under rule 115A within 20 Business Days after the end of the relevant GSI Invoice Period, AEMO must, within 30 Business Days of the end of that period—

...

- (b) issue a GSI Invoice to each Registered Production Facility Operator for that period, which separately itemises—

...

- (ii) the proportion of the GSI Fee attributable to ~~the~~ AEMO's final Annual Budget and Fees published under subrule 108(2)(c) for that period; and

...

Explanatory Note

The glossary is proposed to be amended to reflect the new Annual Budget and Fees framework.

Schedule 1 - Glossary

...

~~**AEMO Budget** means the budget for AEMO published under rule 111A for a Financial Year.~~

...

~~**Allowable Revenue** means the allowable revenue for a Review Period to be recovered by AEMO for the provision of AEMO's functions, determined by the ERA under rule 108A, and includes any amendment made by the ERA under rule 110.~~

...

Annual Budget and Fees: means the document AEMO is required to publish under subrule 108(2), which includes the budget and level of GSI Fees required for AEMO to perform its functions set out in rule 107.

...

~~**Forecast Capital Expenditure** means the predicted sum of capital expenditure required by AEMO for a Review Period which must be approved by the ERA under rule 108A and includes any amendment made by the ERA under rule 110.~~

...

Major Project: means a project determined by AEMO under subrule 108(6).

...

~~**Review Period** means:~~

- ~~(a) in the case of the initial Review Period, the three year period commencing on 1 July 2013; and~~
- ~~(b) in the case of each subsequent Review Period, the three year period commencing on the third anniversary of the commencement of the previous Review Period.~~

4. Describe how the proposed rule change would allow the GSI Rules to better address the GSI Objectives:

This Rule Change Proposal provides for a regulatory framework that replaces the rigidity 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 Gas 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 Gas Market Participants want visibility of forward-looking expenditure and fees, and the provide input into the timing, priorities and scope of AEMO's major investments. 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 Annual Budget and Fees would be refreshed annually, with GSI Fees and forecasts updated accordingly.

While the Annual Budget and Fees 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 Gas Market Participants and consumers a price signal and used for smoothing fees going forward.

The Annual Budget and Fees 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 and trends over time. Most importantly, the Annual Budget and Fees will be annually reviewed and scrutinised by Gas Market Participants and other stakeholders and they will have multiple opportunities to provide input throughout its development.

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 with Gas Market Participants directly. Under the new framework Gas Market Participants 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. AEMO's operating model and cost base for the GSI functions has been relatively stable, with minor incremental adjustments to reflect new rules requirements (e.g. the addition of trucked LNG on the Gas Bulletin Board (GGB)) or other cost pressures (e.g. increasing complexity of modelling for the Gas Statement of Opportunities in the energy transition, increasing enterprise cyber security requirements). Having established this cost base, it is 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 should be relatively light touch.

As Major Projects are those that have a material impact on costs, systems and/or participants, there should be greater levels of information available to be scrutinised by Gas Market Participants, including for prudence and efficiency. Examples would be any material outcomes of the Inquiry into the WA Domestic Gas Policy, or any significant changes to GSI requirements resulting from WA's energy transition.

Under the proposed new framework, Major Projects must be tested with the GAB and cost estimates developed using the best information available at the time. This gives Gas Market Participants the ability to provide input into aspects of the scope, timing and prioritisation of the proposal, the appropriateness of the technical solution, and provide information on implementation costs for Gas

Market Participants.

Major Projects can be tested with the GAB on an ongoing basis, with relevant activities and costs then included in the relevant annual budget and fees proposal. 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 for Gas Market Participants and opportunities for input.

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

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 GSI Rules as proposed to be amended better meet the requirements of the GSI Objectives. Specifically:

(c) the efficient investment in natural gas services in the State

The proposed changes require greater levels of engagement with the parties (Gas Market Participants) who use the GBB and gas services information more broadly. As a result, the revised framework will better ensure any major investments in GSI systems and processes are informed by Gas Market Participants and are more likely to be scaled appropriately for GBB and GSI users' needs and consumer benefit. This in turn will lead to the right-sizing of GSI solutions, reducing the potential for overspecification and improving the quality of information. Higher quality information should ultimately enable efficient investment in natural gas services.

The proposed new budget and fees 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 sustainable change.

AEMO considers the GSI Rules as they are proposed to be amended are consistent with all other GSI Objectives.

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 at least \$1 million for the development an allowable revenue submission (WEM and GSI combined). This doesn't take into account the associated costs for the ERA and Gas Market Participants;
- 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 Gas Market Participants to review, scrutinise and provide input into the delivery of Major Projects.
