

Meeting Agenda

Meeting Title:	Market Advisory Committee (MAC)
Date:	Thursday 17 October 2024
Time:	9:30 AM (for a 9:45 AM start) – 11:15 AM
Location:	On-line and in person

Item	Item	Responsibility	Type	Duration
1	Welcome and Agenda <ul style="list-style-type: none"> Conflicts of interest Competition Law 	Chair	Noting	2 min
2	Meeting Apologies/Attendance	Chair	Noting	1 min
3	Minutes of Meeting 2024_09_05 Approved out of session. Published 1 October 2024	Chair	Noting	1 min
4	Action Items	Chair	Noting	2 min
5	Update on Working Groups			
	(a) AEMO Procedure Change Working Group	AEMO	Noting	5 min
	(b) Power System Security and Reliability (PSSR) Standards Review	PSSRSWG Chair	Noting	20 min
6	Update on the proposed changes to the ERA's WEM Procedures	ERA	Discussion	10 min
7	WEM Effectiveness Report – Updated Scope of Work	EPWA	Noting	10 min
8	Rule Change Proposal RC_2024_01 – AEMO's Allowable Revenue Framework	Chair/All	Discussion	25 min
9	Market Development Forward Work Program	Chair/Secretariat	Noting	2 min
10	Overview of Rule Change Proposals	Chair/Secretariat	Noting	2 min
11	MAC Meeting Schedule for 2025	Chair/Secretariat	Decision	5 min
12	General Business	Chair	Discussion	5 min
	Next meeting: 9:30am Thursday 28 November 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_10_17

Shaded	Shaded action items are actions that have been completed since the last MAC meeting. Updates from last MAC meeting provided for information in RED .
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
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	Open EPWA is updating the TOR to reflect the MAC's and other stakeholder feedback and will provide it at a future MAC meeting
17/2024	Provide a Draft Terms of Reference for the AEMO Major Projects Working Group	AEMO	2024_07_25	Open
19/2024	Publish the 25 July MAC Meeting Minutes on the Coordinator's website	EPWA	2024_09_05	Closed EPWA published the minutes on 5 September 2024

Item	Action	Responsibility	Meeting Arising	Status
20/2024	Discuss legal and drafting concerns with the draft Procedure Change Process Consultation Paper	AEMO and EPWA	2024_09_05	Closed EPWA and AEMO discussed the matter offline
21/2024	Provide details of the stakeholder workshop to the MAC members	ERA	2024_09_05	Closed The ERA provided the details via email on 13 September 2024

MARKET ADVISORY COMMITTEE MEETING, 17 October 2024

FOR DISCUSSION

SUBJECT: UPDATE ON AEMO'S WEM PROCEDURES

AGENDA ITEM: 5(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	25 September 2024	Est. 23 October 2024 (subject to FCESS Cost Review Amending Rules gazettal)
WEM Procedures for discussion	<ul style="list-style-type: none"> Direction of Registered Facilities in Scarcity Conditions GPS Compliance Tests and Generator Monitoring Plans 	

3. AEMO PROCEDURE CHANGE PROPOSALS

The status of AEMO Procedure Change Proposals is described below, current as at [27 September 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_06 WEM Procedure: Supplementary Capacity	AEMO has initiated this Procedure Change Proposal to amend the Procedure following amendments to the WEM Rules arising from a review by the Coordinator into potential improvements in the procurement and activation of supplementary capacity. In response to the Amending Rules, gazetted on 26 July 2024, the amended Procedure will: <ul style="list-style-type: none"> • no longer specify the method for determining the maximum contract value per hour of availability for any Supplementary Capacity Contract. • align provisions relating to assessment of tenders with the Amended Rules, which now includes a new clause 4.24.8A. 	Commenced	N/A	10 September 2024
Procedure Change Proposal AEPC_2024_07 WEM Procedure: Network Access Quantity Model	AEMO is initiating this Procedure Change Proposal to accommodate changes resulting from RCM Review outcomes. The amendments will outline the approach AEMO will take when it is impossible to simultaneously satisfy all requirements during the solve of a Facility Dispatch Scenario, including how AEMO will adjust a NAQ Result where this has resulted in a NAQ Result below the NAQ Floor.	Commenced	N/A	30 September 2024

ID	Summary of changes	Status	Next steps	Indicative Date
Procedure Change Proposal AEPC_2024_10 WEM Procedure: Reserve Capacity Testing	AEMO has initiated this this Procedure Change Proposal to accommodate changes resulting from RCM Review outcomes. The proposed amendments provide: <ul style="list-style-type: none"> • Information about how AEMO will provide notification to Market Participants when conducting a Reserve Capacity Test. • Minor administrative amendments to improve alignment with the WEM Rules. 	Commenced	N/A	1 October 2024

ID	Summary of changes	Status	Next steps	Indicative Date
Procedure Change Proposal AEPC_2024_08 WEM Procedure: Dispatch Compliance	<p>AEMO has initiated this Procedure Change Proposal to replace WEM Procedure: Tolerance Ranges following amendments to the WEM Rules arising from Wholesale Electricity Market Amendment (Tranches 2 and 3 Amendments) Rules 2020 and Wholesale Electricity Market Amendment (Tranche 6 Amendments) Rules 2022.</p> <p>In response to the Amending Rules, the replacement Procedure will:</p> <ul style="list-style-type: none"> • update the processes for determining, consulting on and reviewing the Tolerance Range and any applicable Facility Tolerance Ranges. • describe the matters, events or circumstances that may trigger a review of the Tolerance Range or a Facility Tolerance Range, as applicable. • specify provisions for monitoring dispatch compliance before, during or after a Dispatch Instruction event, the processes where repeated non-compliance is observed. • describe the method for calculating an Electric Storage Resource's (ESR) contribution to a Semi-Scheduled Facility's deviation from its Dispatch Forecast. 	Consultation Closed	Commencement	October 2024

ID	Summary of changes	Status	Next steps	Indicative Date
<p>Procedure Change Proposal AEPC_2024_09</p> <p>WEM Procedure: Direction of Registered Facilities in Scarcity Conditions</p>	<p>AEMO has initiated this Procedure Change Proposal for a new WEM Procedure following amendments to the WEM Rules arising from Wholesale Electricity Market Amendment (Tranches 2 and 3 Amendments) Rules 2020, Schedule C; and Wholesale Electricity Market Amendment (Tranche 6 Amendments) Rules 2022, Schedule E.</p> <p>The procedure documents the process AEMO will use to determine which Registered Facility to direct:</p> <ul style="list-style-type: none"> • to make a Real-Time Market Submission where AEMO has issued a LRC Declaration relating to: <ul style="list-style-type: none"> ○ an actual or projected shortfall in the relevant Frequency Co-optimised ESS; ○ a projected energy shortfall that will occur within one week of the date of the LRC Declaration; or • to synchronise to provide the relevant ESS where AEMO has issued a LRC Declaration and the ST PASA or the Reference Scenario for the Pre-Dispatch Schedule projects the ESS will be needed. 	Out for consultation	Consultation Closure	10 October 2024

ID	Summary of changes	Status	Next steps	Indicative Date
<p>Procedure Change Proposal AEPC_2024_11</p> <p>WEM Procedure: GPS Compliance Tests and Generator Monitoring Plans</p>	<p>AEMO has initiated this Procedure Change Proposal to:</p> <ul style="list-style-type: none"> • update Market Information provisions to be consistent with the amended Chapter 10 provisions that commenced on 1 October 2023. • update date references from Business Days to calendar days (days) to ensure consistency with the WEM Procedure: Commissioning Tests. • require that a separate Generator Monitoring Plan Template be submitted for each Registered Facility that contains a Generating System with Registered Generator Performance Standards, to cover prospective rule changes that may provide for registration of multiple Separate Facilities behind a connection point. • incorporate minor amendments to improve readability and clarity, including the addition of an explanatory process flow chart, and to fix minor errors. 	Out for consultation	Consultation Closure	21 October 2024

4. INDICATIVE SCHEDULE OF AEMO PROCEDURE CHANGE PROPOSALS

AEMO has prepared an indicative schedule of its Procedure Change Proposals expected to be progressed before [31 December 2024](#). Changes since the previous MAC meeting are in **red text**. While every effort has been made to ensure the quality of the information contained in the indicative schedule, the content (including timeframes) may be subject to change (e.g. due to availability of staffing resources, unforeseen competing priorities etc).

WEM Procedure	Summary of changes	Status	Next steps	Indicative date of next step
WEM Procedure: Determination of Market Schedules	AEMO will be initiating these Procedure Change Proposals in response to amendments under the WEM Amending Rules (FCESS Cost Review Amendments).	Drafting in progress	Consultation	October 2024
WEM Procedure: Dispatch Algorithm				
WEM Procedure: Communications and Control Systems	AEMO will be initiating this Procedure Change Proposal to accommodate changes resulting from WEM Reform, and to support DER integration.	Drafting in progress	Consultation	November 2024
WEM Procedure: Facility Registration Processes and NDL Association Processes	AEMO will be initiating this Procedure Change Proposal to accommodate changes resulting from WEM Reform and the Wholesale Electricity Market Amendment (Miscellaneous Amendments No. 3) Rules 2024.	Drafting in progress	Consultation	November 2024
WEM Procedure: Minimum eligibility requirements for Flexible CRC	AEMO will be initiating this Procedure Change Proposal to develop a new WEM Procedure arising from the Wholesale Electricity Market Amendment (Reserve Capacity Reform) Rules 2023.	Drafting in progress	Consultation	November 2024
WEM Procedure: Outage Intention Plans	AEMO will be initiating this Procedure Change Proposal to develop a new WEM Procedure arising from WEM Reform.	Drafting in progress	Consultation	November 2024
WEM Procedure: IMS Interface for Network Operators		Drafting in progress	Consultation	December 2024

	AEMO will be initiating these Procedure Change Proposals to accommodate changes to technical requirements resulting from WEM Reform.			
WEM Procedure: Network Modelling Data				
WEM Procedure: Demand Side Programmes	AEMO will be initiating these Procedure Change Proposals for new procedures that are required as the result of WEM Reform.	Drafting in progress	Consultation	December 2024
WEM Procedure: Real-Time Market Suspension				
WEM Procedure: FCESS Accreditation	<p>AEMO will be initiating this Procedure Change Proposal to accommodate changes resulting from the Wholesale Electricity Market Amendment (Miscellaneous Amendments No. 3) Rules 2024</p> <p>Upon review, AEMO has determined no changes are required to be made as a result of Wholesale Electricity Market Amendment (Miscellaneous Amendments No. 3) Rules 2024.</p>	Drafting in progress	Consultation	Mid-September 2024

Agenda Item 5(b): Update on the PSSR Standards Working Group

Market Advisory Committee (MAC) Meeting 2024_10_17

1. Purpose

- The Chair of the Power System Security and Reliability (PSSR) Standards Working Group (PSSRSWG) to provide an update on the activities of the PSSRSWG since the last MAC meeting.

2. Recommendation

That the MAC:

- (1) notes the update from the PSSRSWG meeting on 10 October 2024: and
- (2) provides feedback on the high-level design proposals as presented in Attachment 1.

3. Background

- The purpose of the PSSR Standards Review (the Review) is to implement the Energy Transformation Taskforce's recommendation to develop a consistent, single end-to-end PSSR standard for the SWIS governed by centralised governance framework that will be implemented in the Electricity System and Market Rules (ESMR).
- The Review is being conducted in four stages, as follows:
 1. Assess the existing PSSR standards framework;
 2. Identify any gaps, duplications, and inconsistencies in the existing framework;
 3. Develop proposals for a single end-to-end PSSR standard and a centralised governance framework governed by the Coordinator under the ESMR; and
 4. Draft rules to implement the recommended framework.
- The MAC established the PSSRWG to support the review of the PSSR standards for the South West Interconnected System (SWIS).
- Given that the roles and responsibilities for managing PSSR standards are largely managed by AEMO and Western Power through their planning and operation processes, a Technical Working Group consisting of EPWA, AEMO and Western Power was also established to provide technical input at each stage of this review.
- The sixth PSSRSWG meeting was held on 10 October 2024. This was the second meeting for Stage 3 of the Review, and the discussion focused on the proposed system strength requirements, network ride through requirements, and matters arising from Western Power's Technical Rules Review, as outlined below.

The proposed System Strength Framework.

- **An amended System Strength definition in the ESMR** to better capture both locational considerations, and the need to reflect both steady state operation and disturbances.

- The PSSRSWG members were supportive of the proposed amended System Strength definition.
- **A 10-year future generation outlook with AEMO, Western Power and EPWA to align on a forecasting approach, including assumptions, scenarios and input data.**
 - The PSSRSWG were supportive of the proposal but highlighted several key considerations:
 - Accounting for the expected location of generation is critical to identifying where system strength issues might be, and this analysis should take into account transmission planning.
 - The future generation outlook is a critical component of a system strength framework, but can also have a broader use, for example in analysing the impact of network congestion on market outcomes.
 - Alignment between the future generation outlook and the ESOO, TSP, and WoSP processes needs careful consideration to ensure a consistent and optimal approach.
 - The framework must capture resource availability, including planned and forced outages, and incorporate credible dispatch scenarios to assess shortfall risks.
 - Industry and consumer consultation is necessary for robust framework development.
 - The likely generation mix must take into account the parameters of the ROCOF market.
- **A requirement to forecast and maintain minimum fault levels for network protection**
 - Western Power (with input from AEMO and/or industry consultation) to develop methodology for calculating minimum three-phase fault-level requirements at each transmission node.
 - Western Power annually publishing a 10 year forecast of minimum three-phase fault level requirements in the Transmission System Plan (TSP) and comparing these to forecasted fault levels.
 - Western Power to publish any forecast shortfalls in the TSP and address these through competitive procurement processes.
 - The PSSRSWG were supportive of the proposals but highlighted several key considerations:
 - Original Equipment Manufacturer (OEM) updates may make inverters capable of providing system strength or inertia, however the process for modifying a registered GPS is onerous. It would be useful to have a more streamlined process to update systems to provide these services without going through a full re-registration.
 - A set and forget approach to controllable IBR may not be appropriate, particularly where it is a lower cost to retune plant or introduce new firmware as opposed to installing other technology or remediating elsewhere.
 - There must be a clear distinction in the framework between shortfalls with regard to the level required for network protection to operate and the level required for IBR to remain stable.
- **A framework for proactive investment in system strength services beyond maintaining the minimum fault level requirements.**
 - The PSSRSWG was asked for commentary on the advantages and disadvantages of a framework that would require Western Power to make proactive investments in system strength (beyond the level required to maintain network protection) in order to bolster IBR hosting capacity.

- The PSSRSWG reached a general agreement that a centralised planning/investment and cost recovery framework underpinned by a robust forecasting framework would be beneficial, noting that further details on costs and benefits will need to be provided but highlighted several key considerations:
 - Community preferences have driven the shift to more inverter-based resources and should bear the cost of that through network charges. However, there is a need to balance the risks of free riders.
 - If existing facilities need to update settings or inverters to provide system strength there must be a cost recovery mechanism for that.
 - Inverter based resources on the system will have a first mover advantage in using existing system strength.
 - There is significant investment into network infrastructure needed to unlock new generation, and this a similar need to support that generation. With the current lead times for technology such as synchronous condensers, proactive investment will be needed but acceptance of the forecasting and regulatory mechanisms is critical.
 - The provision of system strength by existing facilities that can run as synchronous condensers should be allowed.

Proposed network ride-through requirements

- Network elements to be required to ride through similar disturbances that generators are required to ride through, unless the element itself is already faulted, or there is a requirement for the network element to trip as part of a considered load shedding scheme
 - The PSSRSWG members were supportive of the proposal.

Western Power Technical Rules Review Issues list.

- It was proposed that the security and reliability issues from Western Power's Technical Rule Change submission to the ERA (excluding those not covered in PSSR Standards Review under stage 2) be addressed in the Consultation Paper:
 - as outlined in Western Power's submission to the ERA, or
 - through updated recommendations based on the PSSR Technical Working Group feedback.
 - The PSSRSWG members were advised that the meeting would not cover issues in detail but would instead focus on specific points raised by members. No particular issues were raised during the meeting; however, members were given two weeks to provide any additional feedback
- The PSSRSWG is likely to meet one more time before a draft Consultation Paper is presented to the MAC at the November 28 meeting.
- The next (seventh) PSSRSWG meeting is yet to be scheduled.
- Papers and minutes for the PSSRSWG meetings are available on the PSSRSWG webpage at [Power System Security and Reliability \(PSSR\) Standards Working Group \(www.wa.gov.au\)](http://www.wa.gov.au)
- Further information on the PSSR Standards Review, including all Papers are available on the PSSR Standards Review webpage at [Power System Security and Reliability Standards Review \(www.wa.gov.au\)](http://www.wa.gov.au)

5. Next Steps

<u>Stage</u>	<u>Activity</u>	<u>Timing</u>
3 - Develop design proposals	Chair to update the MAC on the PSSRSWG	17 October 2024
	Consult with the MAC on a draft Consultation Paper	28 November 2024
	Consult with the MAC on a draft Information Paper	TBC
	Exposure draft of Draft Amending WEM Rules	TBC
4 - Develop amending rules	Amending WEM Rules submitted to Minister for Energy	TBC

6. Attachment

- (1) Agenda Item 5(b) - Attachment 1 – Update on the PSSRSWG.
- (2) Agenda Item 5(b) - Attachment 1 – Technical Rules Review list



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

Market Advisory Committee

Power System Security and Reliability (PSSR) Standards Working Group Update

17 October 2024

Working together for a
brighter energy future.

Purpose

1. To present the MAC with an overview of design proposals and seek the member's feedback on key aspects.

Proposed SWIS System Strength Framework

System Strength - Fundamentals

What is System Strength, how is it measured and remedied?

What is System Strength?

- System strength is an umbrella term to describe a set of complex related phenomena for different strength needs, with contemporary definitions tending to focus on the quality of the voltage waveform.

Assessing System Strength

- The use of system strength as an umbrella term without focusing on its constituent parts has led to challenges with defining and managing it.
- Common proxy measures of system strength include:
 - **Balanced three-phase fault level (MVA;) and**
 - **Short-circuit ratio (SCR)**

Remediation Options

- There are a diverse array of options (not only focusing on increasing fault level) to tackle the individual phenomena under the system strength umbrella.

Responsibility for providing solutions

- Some system strength issues like protection system operation and voltage stability are the responsibility of the network operator.
- It can be argued that other issues are a joint responsibility with the network operation and generation/storage proponents, such as post disturbance PLL stability, convertor driven voltage oscillations and dynamic voltage stability

System strength - Fundamentals

The Current WEM System Strength provisions

WEM Rules definitions

- **System Strength** is a measure of how resilient the voltage waveform is to disturbances such as those caused by a sudden change in Load or an Energy Producing System, the switching of a Network element, tapping of transformers and other types of faults.
- **System Strength Requirements:** Means, the requirements identified to maintain sufficient System Strength on the SWIS, as determined by the processes specified in the WEM Procedure referred to in clause 3.2.7.

Other related WEM Rules and WEM Procedures

- 3.2.5(f), 3.2.7(e), 3.4.3(d).
- Transmission System Plan (TSP) and Non-Co-optimised Essential System Services (NCESS) provisions contemplate system strength services indirectly.
- [WEM Procedure - Power System Security](#) , [Power System Stability Guideline](#))

Technical Rules

- Does not refer to system strength and does not allocate responsibility for planning the transmission and distribution system to provide sufficient system strength.
- Planning obligations around system strength are arguably captured implicitly under existing voltage stability, power quality, protection and fault level criteria (i.e. technical performance standards).

System strength - Fundamentals

National Electricity Market (NEM) Framework

- “System Strength” is not a stand-alone defined term in the National Electricity Rules (NER) Glossary, although there are several related definitions.
- The intent of the recently revised framework (following the Australian Energy Market Commission (AEMC) 2021 and 2024 system strength rule changes) is fundamentally economic – to facilitate the coordinated central procurement of system strength services and provide efficient long-term price signals to allow proponents to make more informed investment decisions.

Key elements of the NEM Framework include:

- **Forecast system strength requirements:** AEMO’s annual System Strength Report defines the minimum fault level at key nodes, identifies system strength shortfalls, and projects inverter-based resources (IBR) capacity over the next 10 years.
- **Centralised system strength planning and investment:** The System Strength Service Provider (SSSP), currently the prevailing Transmission network service providers (TNSP), in each region is responsible for procuring system strength services to meet minimum fault levels and plan additional investments based on AEMO’s IBR capacity projections at each node.
- **System strength charge:** As an alternative to the “do no harm” principle, generation proponents can elect to pay an annual charge to the SSSP to provide enough system strength services to host their IBR capacity.

System strength - Issues

Why does it need to be managed?

- System strength is one determinant of how well the power system can return to normal operation following a disturbance or fault. In practical terms, power systems with system strength can maintain more stable voltages following changes in power flows.
- Synchronous machines, which have traditionally dominated the power system, are a source of system strength. The current generation of grid-following IBR provide a significantly lower and different contribution towards fault level, which means that the lowest system strength on a power system is likely to be in a part where generation is dominated by IBR and electrically remote from synchronous machines.
- Therefore, it is becoming increasingly important to forecast and manage system strength issues to maintain a secure power system.

System strength - Issues

What does a good framework look like?

A robust system strength framework should promote:

- **Efficient planning and investment:** by both the network service provider (NSP) and generation/storage proponents as it pertains to the forecasting / identification and resolution of system strength issues.
- **Clear demarcation of responsibility:** between relevant parties for resolving system strength issues.
- **Appropriate cost allocation:** between the relevant parties that is reflective of the system strength needs that are being addressed.
- **Appropriate risk allocation:** between the NSP and proponents, trading off the risk of over-investment by the NSP and the risk of excessive curtailment affecting proponent returns.
- **Transparency:** to allow informed investment decisions to be made and risks to be appropriately priced.
- **Solution-agnostic:** the framework should be compatible with the range of remediation options available, e.g. network investment, contracts with market generators, collective re-tuning, etc.
- **Fairness for incumbent facilities:** who have often done nothing wrong and are adversely affected by new facilities connecting and/or changes to the power system.

System Strength - Issues

SWIS context - Lack of guidance on efficient planning and investment

There is no single source of “truth” for forecasting the future demand and generation mix in the SWIS over a 10-year period to inform any system strength related investments.

- **AEMO WEM Electricity Statement of Opportunities (ESOO)** – Only assumes existing and committed generation
- **AEMO Gas Statement of Opportunities (GSOO)** – Assumes least-cost expansion
- **EPWA Whole of System Plan (WOSP) and ad hoc studies like the SWIS Demand Assessment** – Assumes least-cost expansion but no expected scenario
- **Western Power TSP** – must “take into account” power system security and reliability standards and requirements under the WEM Rules and the TR (4.5B.5), with consideration of scheduled connection of new loads or generators (4.5B.6). No clear guidance is included in relation to uncommitted loads, generation or retirements which may impact System Strength needs.

System Strength - Issues

SWIS context - Lack of clearly defined responsibilities

- No obligations for Western Power (or any entity) to determine, maintain and publish minimum three-phase fault levels (in MVA) in the transmission network.
- There is an existing obligation in the Technical Rules (5.5.1) for Western Power to publish maximum fault levels at each transmission node.
- In practice, Western Power also publish current and future (+5 years) minimum three-phase and single-phase fault currents (in kA) at each transmission node in the annual TSP, which is intended to convey information to network users for facility design and protection purposes.
- However, the methodology for determining the generation fleet is not specified, nor are the generator dispatch, outage and/or demand scenarios articulated, i.e. without any formal obligations, this process can be (and currently is) very opaque.
- Moreover, the current requirement is simply to publish the fault levels, without determining and maintaining minimum levels. While this may be done implicitly behind the scenes as part of BAU transmission planning, it is not transparent what the minimum fault levels are and how they were determined.
- Proponents may enter into negotiations using the framework under the Electricity Networks Access Code (ENAC) if they want to request a service from Western Power as part of the connection process. This provision does not explicitly mention system strength services but could be used for this purpose.

System Strength - Issues

SWIS context – Other issues

Cost allocation

- There is no cost allocation framework between Western Power and proponents if Western Power is investing to maintain system strength

Risk allocation

- There is no guidance for Western Power (or proponents) to plan or make proactive system strength investments, nor is there explicit guidance on the market benefits of alleviating system strength constraints.
- For new proponents, system strength issues are expected to be captured during the grid connection process, though rectification of issues identified that involve third-party facilities is not defined (i.e. ad-hoc).

Transparency

- Western Power may maintain minimum fault levels implicitly behind the scenes as part of BAU transmission planning, but it is not transparent what the minimum fault levels are and how they were determined.

Solution agnostic

- Given the lack of framework, there is limited guidance on solutions for resolving issues.

Fairness for incumbent facilities

- There is no mechanism / guidance to address system strength issues that emerge post-connection- should system strength issues emerge; the most likely outcome is the application of dispatch constraints.

System strength – proposed framework

Components

System Strength definition

Annual forecasting

Centralised planning/investment based on shortfalls

Cost allocation/recovery

System strength – proposed framework

Amended System Strength definition

Proposed Electricity System and Market Rules (ESMR) definition

- **System Strength** relates to the ability of the power system to resist changes to the voltage waveform in a particular location, both during steady state operation and following a disturbance, including, but not limited to, a sudden change in a Load or an Energy Producing System, the switching of a Network element, tapping of transformers and faults.

Rationale

The definition of system strength has evolved considerably over time and the proposed definition harmonises the current WEM definition with the proposed AEMC definition, to capture both locational considerations, and the need to capture steady state operation and disturbances.

No feedback from the PSSRSWG

System strength – proposed framework

Future generation outlook

AEMO, EPWA and Western Power to align on a forecasting approach, including assumptions, scenarios and input data. This will be through a Methodology, Inputs, Scenarios and Assumptions (MISA) report, to be updated annually and subject to broad consultation.

Use this to determine an expected 10-year generation and storage capacity outlook on an annual basis.

- Consideration should be given to whether/how it reflects capacity quantities (MW), technologies (e.g. gas/wind/solar) and locational factors.

Consider interaction between various planning documents to ensure alignment, including:

- WOSP, which sets network Priority Projects
- TSP, which drives network augmentations
- Reserve Capacity Requirement

Rationale: Provides all stakeholders with the information required to carry out forecasting and make informed planning and investment decisions.

System strength – proposed framework

Future generation outlook – PSSRSWG feedback

- General agreement from the PSSRSWG members that a centralised planning/investment and cost recovery framework underpinned by a robust forecasting framework will provide pre-emptive mitigation of system strength risks.
- Key input from members
 - Accounting for the expected location of generation is critical to identifying where system strength issues might be, and this analysis should take into account transmission planning
 - The future generation outlook is a critical component of a system strength framework, but can also have a broader use, for example in analysing the impact of network congestion on market outcomes.
 - The framework must capture the availability of resources that provide system strength into the future (i.e. account for outages and maintenance of the facilities that provide it). This includes having credible dispatch scenarios associated with the future fleet, including planned and forced outages to adequately assess the risk of shortfalls.
 - The likely generation mix in light of the parameters of the ROCOF market must be accounted for in the outlook.
 - Currently only synchronous inertia can provide ROCOF, and therefore this market acts as a safety net to manage system strength (noting this may not account for locational needs). In future there may be provisions that allow for synthetic inertia.

System strength – proposed framework

Maintaining minimum fault level requirements and 10-year forecast of fault level by transmission node

- Western Power (with input from AEMO and/or industry consultation) to develop methodology for calculating minimum three-phase fault-level requirements at each transmission node.
- Western Power to publish the minimum three-phase fault level requirements annually (as part of the TSP) and compare the requirements against forecasted fault levels.
- Western Power to publish forecast shortfalls against what is necessary to maintain network protection as part of the TSP.
- Forecast shortfalls to be resolved via Western Power BAU transmission planning processes, or via NCESS contracts if necessary (procured through competitive processes either way).

Rationale: Provides planning certainty for both Western Power and proponents seeking connection.

System strength – proposed framework

Maintaining minimum fault level requirements and 10-year forecast of fault level by transmission node – PSSRSWG feedback

- General agreement from the PSSRSWG members that a centralised planning/investment and cost recovery framework underpinned by a robust forecasting framework will provide pre-emptive mitigation of system strength risks.
- Key input from members
 - Original Equipment Manufacturer (OEM) updates may make inverters capable of providing system strength or inertia, however the process for modifying a registered GPS is onerous. It would be useful to have a more streamlined process to update systems to provide these services without going through a full re-registration.
 - A set and forget approach to controllable IBR may not be appropriate, particularly where it is a lower cost to retune plant or introduce new firmware as opposed to installing other technology or remediating elsewhere.
 - There must be a clear distinction in the framework between shortfalls with regard to the level required for network protection to operate and the level required for IBR to remain stable.

System strength – proposed framework

The need for an investment framework for system strength beyond maintaining the minimum fault level requirements

Currently, Western Power is not obliged to make proactive investments in system strength to bolster IBR hosting capacity. There is a continuum of options to consider with regard to how proactive (or otherwise) Western Power should be as shown below.

EPWA sought feedback from the PSSRSWG on below options:



Questions for discussion

- How to deal with no-fault issues (e.g. as a result of coal retirement)
- Cost allocation where a negotiated outcome results in investment that may benefit future connection applicants?
- Will this approach to 'connect and manage' allow for solutions to be implemented in a timely manner?

Questions for discussion:

- How far ahead should investment be triggered?
- What threshold should be applied to trigger investment to avoid the risk of stranded assets?
- How should costs be allocated?
- Will the administrative burden of this be warranted in the 'new normal' (post 2030 coal retirements)?

System strength – proposed framework

The need for an investment framework for system strength beyond maintaining the minimum fault level requirements

- PSSRSWG feedback.

- General agreement that a centralised planning/investment and cost recovery framework underpinned by a robust forecasting framework would be beneficial, noting that further details on costs and benefits will need to be provided.
- Key input from members
 - Community preferences have driven the shift to more inverter-based resources and should bear the cost of that through network charges. However, need to balance the risks of free riders.
 - If existing facilities need to update settings or inverters to provide system strength there must be a cost recovery mechanism for that.
 - Inverter based resources on the system will have a first mover advantage in using existing system strength.
 - There is significant investment into network infrastructure needed to unlock new generation, and this a similar need to support that generation. With the current lead times for technology such as synchronous condensers, proactive investment will be needed but acceptance of the forecasting and regulatory mechanisms is critical.
 - The provision of system strength by existing facilities that can run as synchronous condensers should be allowed.

Network ride through requirements

Network ride through requirement

Issue

- There is no specific requirement for the network service provider to design, install or operate the network in a manner that will not trip elements for the same system disturbances that generators and loads are required to remain connected for (see WEMR A12.7 – A12.8)

Considerations

- Network elements can have a large impact on system security if they trip during system disturbances.
- During the fault, network elements that are required to remain in services are electrically closer to each other than large generating facilities. That makes the requirement on network elements to ride through important for PSSR.

Proposal

- Network elements to be required to ride through similar disturbances that generators are required to ride through, unless the element itself is already faulted, or there is a requirement for the network element to trip as part of a considered load shedding scheme.

Rationale

- No basis for a different definition of disturbances than that which is currently applied to generators has been identified. Increasing alignment between network and facility ride through requirements provide pre-emptive mitigation of PSSR risks.

PSSRSWG Feedback/Input

- Overall agreement on the proposal from the PSSRSWG members.

Technical Rules Issues list

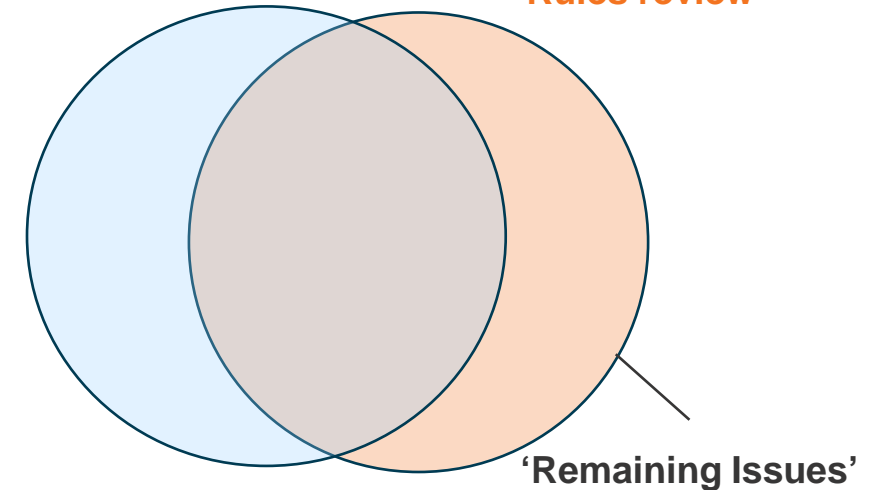
Western Power Technical Rules Review identified issues

Proposed Approach

- Western Power identified issues with the current PSSR framework in its September 2023 Technical Rule Change submission to the ERA.*
- Some of Western Power's identified issues are covered by the broader issues identified in the PSSR Standards Review under stage 2.
- Some issues remain and Western Power and AEMO, as part of the PSSR Standards Technical Working Group, have reviewed and provided further feedback on the issues for consideration.
- EPWA's Proposal: to consult Western Power's preferred approach to the remaining issues through the Consultation Paper (and these issues are set out in the spreadsheet circulated with these slides).
- **The PSSRSWG members were advised that the meeting would not cover issues in detail but would instead focus on specific points raised by members. No particular issues were raised during the meeting; however, members were given two weeks to provide any additional feedback**
- [* Western Power's submission to the ERA](#) and [Western Power's proposed amended Technical Rules](#)

Issues identified through
PSSR Standards Review

PSSR related issues
Western Power
raised in its Technical
Rules review



Issue	Ref. TR Review	Summary Issue/ Proposed solution	Notes
Transmission voltage limits	3.4	Clarification of transmission voltage limits – a new timeframe approach for returning to steady state voltages after a disturbance and has separated voltage limit requirements across operational and planning timescales.	Consultation will focus on any implications arising from Western Power’s selected technical limits and the inclusion of ‘economic efficiencies’ in clause 2.2.2.7(c).
Distribution voltage limits	3.5	<p>Distribution voltage limits can be clearer and align with wider limits adopted in other jurisdictions.</p> <p><i>Note: since the time of the submission in Sep 2023 there have been changes to the Australian Standards. The revised proposal is to adopt the limits in AS IEC 60038: 2022 voltage standard, which stipulates a voltage supply range of +/- 10% under normal operating conditions.</i></p>	Will consult on updated proposal
Standard for transient stability	3.6	Standard for transient stability is technology specific (rotor angle) and need to be more clearly applicable to inverter technologies.	
Standard for oscillations	3.7	Standard for oscillations does not consider all forms of oscillation. Adequately Damped is not defined in WEMR or TR.	

Voltage stability	3.8	Lack of clarity on assessing voltage stability- amendments to address voltage stability requirements.	
Network Service Provider obligations - stability and modelling	3.9	Provide a definitive obligation for Western Power to maintain the existing load and generator modelling guidelines, and to place clear obligations on Western Power to make appropriate assessment of system stability while avoiding unnecessarily prescriptive requirements regarding how the stability assessments are to be made	
Network Service Provider obligations - power system performance	3.11	Inclusion of a specific clause for the Network Service Provider to ensure sufficient monitoring is in place	
Network Service Provider obligations - system restart	3.12	Inclusion of specific clauses that that places obligations on Western Power to assist with, and facilitate, the system restart plan	
UFLS requirements	3.13	Replacing the prescriptive arrangements with a high-level obligation on the NSP to provide a UFLS scheme and coordinate the functional design with AEMO and specifying that the NSP may require a User to make a portion of their load available for UFLS.	Western Powers obligation to analyse and understand if the UFLS system meets required outcomes in support of AEMO's development of UFLS requirements will be considered. Work will continue between EPWA, AEMO and Western Power to arrive at the right level of regulatory specification, noting that the framework will need to be harmonised under the ESMR.

Transmission planning criteria	4.1	Variety of changes, including RRST may no longer be able to be designed to meet the NCR criteria. Proposal to implement a hybrid solution which includes changes to the TSP Criteria to introduce a new Demand Group Structure and move towards risk-based or probabilistic techniques.	The matters in section 4.1 form part of the Transmission Planning Criteria, which are being considered in detail under the PSSR Standards Review. EPWA will incorporate the issues raised in section 4.1 of the Technical Rules Submission as part of the planning criteria section of the consultation paper.
Def. of credible contingency	4.2	Definition of credible contingency to be clearer and take into account the change in certainty over the infrastructure planning, implementation and operation time horizons.	The proposal is predicated on the ongoing separation between the WEM Rules and the Technical Rules. Given that both will be harmonised into the ESMR, consideration will be given to the harmonisation of the credible contingency frameworks.
Def. of plant ratings to adopt cyclic or short-term ratings	4.3	Use of alternative plant ratings within planning timescales. Proposal to update the transmission planning criteria to explicitly allow the use of alternative or short-term ratings when determining compliance with planning criteria, but only include high level description.	Consultation will focus on potential impacts of the market of the proposed changes.
Duration of protection equipment being taken out of service.	5.3	Duration of protection equipment being taken out of service - WP has proposed the removal of the six-month limit on outages.	

Definition of equipment for which CFCTs apply	5.4	Application of maximum total fault clearance times for 'new' and 'existing' equipment – proposal to use guideline to capture appropriate guidance.	Consideration will need to be given to whether a Guideline is the most appropriate instrument under the ESMR for these matters.
Weak infeed assessments under islanding conditions	5.5	Clarifications to limit weak infeed assessments to high-risk sustained islanding scenarios, exclude circuit breaker failures, and define a practical point of assessment within the network.	
Distinction between transmission and distribution protection operation for critical fault clearance times	5.6	Changes to align transmission and distribution protection operation for critical fault clearance times.	
Review of user control and protection settings. System design and construction standards	6.2.6, 6.2.7	Proposed amendments relating to Control and Protections settings and System design and construction standards.	
Aligning protection and disturbance ride-through requirements.	6.8.6	Changes to ensure consistency with generating system protection requirements and disturbance ride through requirements between the WEM Rules and Technical Rules.	
Alignment with revisions to network planning criteria and network service provider obligations	8.3	Adjustment to the Technical Rules to take into account other revisions made to Chapter 5 in the Technical Rules submission	
Clarifying arrangements for planning network outages	8.5	Inclusion of obligations for the Network Service Provider to develop an outage assessment guideline.	

Clarifying acceptable timeframes for protection outages	8.9	Inclusion of a clause that requires the Transmission Network Operator to consider the availability requirements specified in clause 2.9.3 when assessing the impact of transmission equipment protection outages	
Wording of voltage control can be improved.	8.10	Adequate consideration of all expected load conditions - proposal for the operational requirement to be specified in a manner that caters for all expected load conditions.	

Agenda Item 7: WEM Effectiveness Report – updated Scope of Work

Market Advisory Committee (MAC) Meeting 2024_10_17

1. Purpose

Energy Policy WA (EPWA) to update the MAC on the Scope of Work for the Coordinator of Energy's (Coordinator's) first WEM Effectiveness Report.

2. Recommendation

That the MAC notes the changes to the Scope of Work for the WEM Effectiveness Report (Attachment 1).

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 ERA and AEMO, must monitor market design problems or inefficiencies.
- The Coordinator must provide the Minister with a report dealing with the matters identified through its market monitoring activities at least once every three years, with the first such report due by 1 July 2025 (the WEM Effectiveness Report).
- 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.

3.2. Scope of Work

- At the 25 July 2024 MAC Meeting, EPWA presented a draft Scope of Work for comment and advised it was interested in further stakeholder discussions.
- From 8 August 2024 to 28 August, EPWA met with several MAC members and other key stakeholders.
- Following the consultation, EPWA amended the Scope of Work for the WEM Effectiveness Report (Attachment 1) to reflect the feedback received.
- EPWA has made additions to the following:
 - the content regarding monitoring market design problems or inefficiencies;
 - the content regarding AEMO's effectiveness in carrying out its functions;
 - the content regarding the Network Operator's effectiveness in carrying out its functions; and

- the content of the market trend analysis.

3.3. Stakeholder Engagement

- 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 method 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 Objectives¹ to be considered by the Minister.

4. Attachments

Agenda Item 7 - Attachment 1 - WEM Effectiveness Report Scope of Work

¹ The current Wholesale Market Objectives will be replaced by the new State Electricity Objective, 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. Background

2.1 Purpose of the Coordinator's WEM Effectiveness Report

2.1.1 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.

2.1.2 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 Objectives¹ to be considered by the Minister.

3. Project Scope

3.1 Purpose

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

3.2 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 held interviews with individual Market Participants and other interested stakeholders to inform this Scope of Work.

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

4. 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 interviews	August 2024 - September 2024
(3) Develop a draft WEM Effectiveness Report, and consult with the MAC as appropriate	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

¹ 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	<p>Overview of the market development, including market design problems or inefficiencies.</p> <p>Include assessment of possible market effectiveness issues regarding:</p> <ul style="list-style-type: none"> • Recognition by WEMDE of facilities inflexibilities e.g. minimum generation • Transparency of costs for Non-Co-optimised Essential System Services (NCESS) and Supplementary Capacity • do prices in the WEM incentivise the needed investment • monitoring and addressing of Network constraints • approach to constrained Network access for loads • barriers for inverter-based generators to provide 	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	

Report Sections	Provision	Content	Purpose	Underlying Obligations	Related reports
		<p>market services such as FCESS</p> <ul style="list-style-type: none"> ability of loads to adjust consumption level based on market prices. 			
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"> market performance and compliance <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	<p>compliance-framework-and-strategy - (erawa.com.au)</p> <p>Annual reports to the Minister on AEMO's compliance</p> <p>Market Rules Compliance Reports</p>
	2.16.13B(a)(i)	<p>Assessment of the effectiveness of the Economic Regulation Authority's surveillance activities under sections 2.16A to 2.16D.</p> <p>EPWA will discuss with the ERA its surveillance activities to determine appropriate metrics to assess effectiveness.</p>	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	<p>Monitoring the new WEM - (erawa.com.au)</p> <p>Portfolio Assessment - (erawa.com.au)</p>
	2.16.13B(a)(ii)	<p>Assessment of the appropriateness of the parameters for determining a Material Portfolio and</p>	Report to the Minister on identified issues, and whether the ERA's parameters for determining Material Portfolio and Material	2.16B.1, 2.16B.2, 2.16C.1, 2.16C.2	<p>Portfolio Assessment - (erawa.com.au)</p>

Report Sections	Provision	Content	Purpose	Underlying Obligations	Related reports
		Material Constrained Portfolio under clauses 2.16C.1 and 2.16C.2.	Constrained Portfolio are fit to purpose.		
3 - Effectiveness of AEMO in carrying out its functions under the Regulations, the WEM Rules and WEM Procedures	2.16.13B(b)	<p>Assess performance regarding:</p> <ul style="list-style-type: none"> • efficient costs of market and system operations • accuracy and consistency of public data • accessibility of public data • whether data presentation is customer friendly • transparency • planning and forecasting assumptions • setting of the reserve margin • outage planning • forecasting errors • any other functions under the WEM Rules. <p>Include benchmark analysis where appropriate and consider development of performance measurements.</p>	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	<p>Market Rules Compliance Reports - (erawa.com.au)</p> <p>compliance-reports - (erawa.com.au)</p> <p>AEMO's compliance - (erawa.com.au)</p> <p>Annual Market Performance Review FY2023 AEMC</p>

Report Sections	Provision	Content	Purpose	Underlying Obligations	Related reports
4 - Effectiveness of Network Operators in carrying out their functions under the WEM Rules and WEM Procedures	2.16.13B(c)	<p>Assess performance regarding:</p> <ul style="list-style-type: none"> • appropriateness of connection costs • connection times • are processes customer friendly • transparency of network outages • information provision • transparency of current and future available capacity to connect to the network; • alignment of planning and processes with other WEM governance bodies (e.g., outages and project planning) • any other functions under the WEM Rules. <p>Include benchmark analysis where appropriate.</p>	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	<p>Market Rules Compliance Reports - (erawa.com.au)</p> <p>Annual Reliability and Power Quality Report (westernpower.com.au)</p> <p>Electricity network performance report 2023 Australian Energy Regulator (AER)</p> <p>Energy Queensland Ltd Annual Report 2022-23</p>
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 BRCs.	2.26.1, 2.26.2A, 2.26.2C, 2.26.2L, 2.26.2M, 2.26.2O	BRCP and MPL Review 2019 (erawa.com.au)
6- Market trends	2.16.13E(a)	<p>Summary of information the Coordinator considers relevant and appropriate to include in the Report.</p> <p>Including:</p> <ul style="list-style-type: none"> • market costs including for Essential System Services • power system reliability • procurement and dispatch of NCESS and supplementary capacity • bidding behaviour • distributed energy resources growth • emissions • reserve capacity prices and sources • number of market participants. <p>Consider comparisons to other energy markets where appropriate.</p>	Market trend information to support the report.		Annual Market Performance Review FY2023 AEMC

Report Sections	Provision	Content	Purpose	Underlying Obligations	Related reports
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 8: Rule Change Proposal RC_2024_01 – AEMO's Allowable Revenue Framework

Market Advisory Committee (MAC) Meeting 2024_10_17

1. Purpose

MAC members to discuss the Rule Change Proposal for AEMO's Allowable Revenue Framework, which is currently out for consultation, and provide their advice to the Coordinator.

2. Recommendation

The MAC provides advice to the Coordinator on Rule Change Proposal *RC_2024_01 - AEMO's Allowable Revenue Framework*.

3. Meeting request

- On 26 September 2024, as per clause 2.7.4 of the WEM Rules, the Coordinator notified MAC members that he did not consider it necessary to convene the MAC about the Rule Change Proposal *RC_2024_01 - AEMO's Allowable Revenue Framework* due to AEMO presenting a draft Rule Change Proposal to the MAC.
- Under clause 2.7.5 of the WEM Rules, the Independent Chair must convene a MAC meeting, if two or more members of the MAC write to the Independent Chair requesting a meeting to discuss and provide advice on a Rule Change Proposal.
 - Two members have written to the Independent Chair requesting a meeting.
 - The Independent Chair added a discussion on the Rule Change Proposal to the agenda of the 17 October 2024 MAC meeting that was already scheduled.

4. Background

- AEMO presented its draft Rule Change Proposal at the 25 July 2024 MAC Meeting. Some MAC members were concerned about effective oversight without the ERA involved and the lack of linking the budget to performance.
 - Following the 25 July MAC Meeting, AEMO updated the Rule Change Proposal clarifying how the proposed process would address transparency and introduced performance reporting.

- On 28 August 2024, AEMO submitted its Rule Change Proposal to the Coordinator.
 - On 3 September 2024, the Coordinator requested further clarification from AEMO on how AEMO proposes to govern its budget during the planning and delivery phases of its work;
 - On 13 September 2024, AEMO submitted an updated proposal outlining AEMO's internal annual budget process, including how it plans investment and holds itself accountable through a governance hierarchy of multiple layers;
 - On 20 September 2024, the Coordinator informed AEMO that he had decided to progress the Rule Change Proposal under the Standard Rule Change Process outlined in section 2.7 of the WEM Rules; and
 - On 25 September 2024, the Coordinator published the Rule Change Notice and Proposal (Attachment 1) on the Coordinator's Website.

5. Stakeholder engagement

- The first submission period closes at 5:00pm (AWST) on 6 November 2024.
- The Coordinator is interested in any feedback and advice from the MAC regarding the proposal.

6. Attachments

Agenda Item 8 - Attachment 1 - RC_2024_01 - Rule Change Notice and Proposal



Rule Change Notice: Allowable Revenue Framework (RC_2024_01)

This Rule Change Notice is given under clause 2.5.7 of the Wholesale Electricity Market (WEM) 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 WEM 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 new 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 as part of regular WEM effectiveness reporting.

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

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

Background of the Proposal Development

AEMO submitted two in-period adjustments for its 2022-25 Allowable Revenue 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 discussed a draft of this Rule Change Proposal at the 25 July 2024 Market Advisory Committee (MAC) meeting. AEMO submitted the Rule Change Proposal to the Coordinator on 28 August 2024.

On 3 September 2024, the Coordinator sought clarification under clause 2.5.5 of the WEM 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

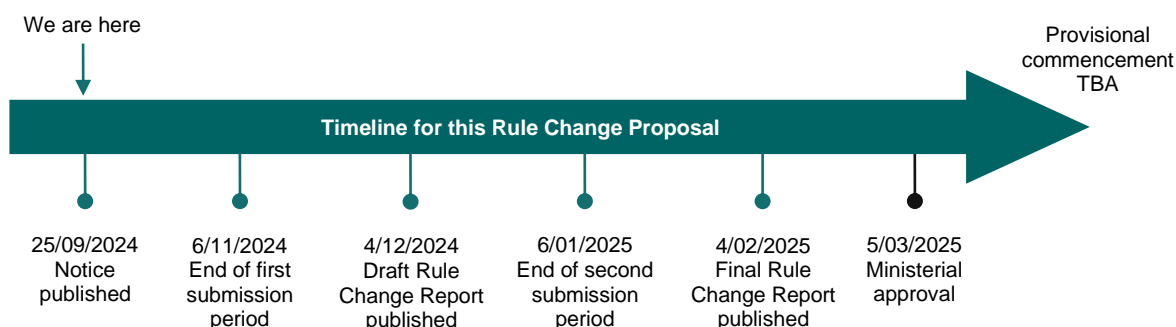
The Coordinator has decided to progress the Rule Change Proposal using the Standard Rule Change Process based on a preliminary assessment that it:

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

Timeline

AEMO's Rule Change Proposal seeks to include a Protected Provision under regulation 7(3)(c)(i) of the *Electricity Industry (WEM) Regulations 2004* and clause 2.8.13(f) of the WEM Rules. Consequently, if the Coordinator's final decision is to include a Protected Provision, the Minister is responsible for approving the Final Rule Change Report under clause 2.8.5 of the WEM Rules.

This Rule Change Proposal will be progressed under the Standard Rule Change Process described in section 2.7 of the WEM 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 has the ability under clause 2.8.6 of the WEM Rules to 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



WEM Rule Change Proposal Form

Rule Change Proposal ID: RC_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
WEM Rule(s) affected:	Table of Contents, 1.XX.X, 1.XX.Y, sections 2.22 and 2.22A, clauses 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@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 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:

1.1 Background

AEMO recovers the costs for 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 an amount it considers meets the requirements under section 2.22A of the WEM Rules and the funding proposal guideline developed under clause 2.22A.9¹.

In addition to this process, the WEM 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 \$10 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 relevant 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.

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, 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 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

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>

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 year-on-year uncertainty regarding obligations on AEMO and Market Participants, and the associated costs.

This pace of change is expected to prevail throughout the next decade. This means AEMO will continue to be limited in the level of certainty and detailed information it can produce to satisfy the rigid 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 key 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, with 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 the implementation of key reform projects required to enable and manage the risks of the energy transition.
3. Uncertainty for Market Participants regarding the delivery of critical projects due to funding uncertainty, leading to an inability to accurately forecast market fees. This ultimately affects the costs passed through to consumers.
4. High costs of administration and associated resourcing to develop the funding proposals. Each submission has costed AEMO an estimated \$1 million, driven by the requirements of the current regime to provide very detailed costing and information, with the ERA and Market Participant also experiencing additional costs from the process.

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.³

1.3 Design principles

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

1. **Transparency** – Ongoing transparency for 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 Market Participants with a mechanism to hold AEMO to account. Transparency can be achieved through providing forward-looking estimates of AEMO's activities, priorities, costs and fees, which would provide Market Participants with the certainty to budget for and determine what costs can reasonably be passed on to consumers.

³ Ibid.

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

This would allow those paying market fees to provide input when AEMO plans, priorities, 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 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 confidence in and access to the funding it needs to deliver projects in an 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 as 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 a shorter-term budgeting approach will ensure the costs and project estimates used to determine the forecast revenue and fees are 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.

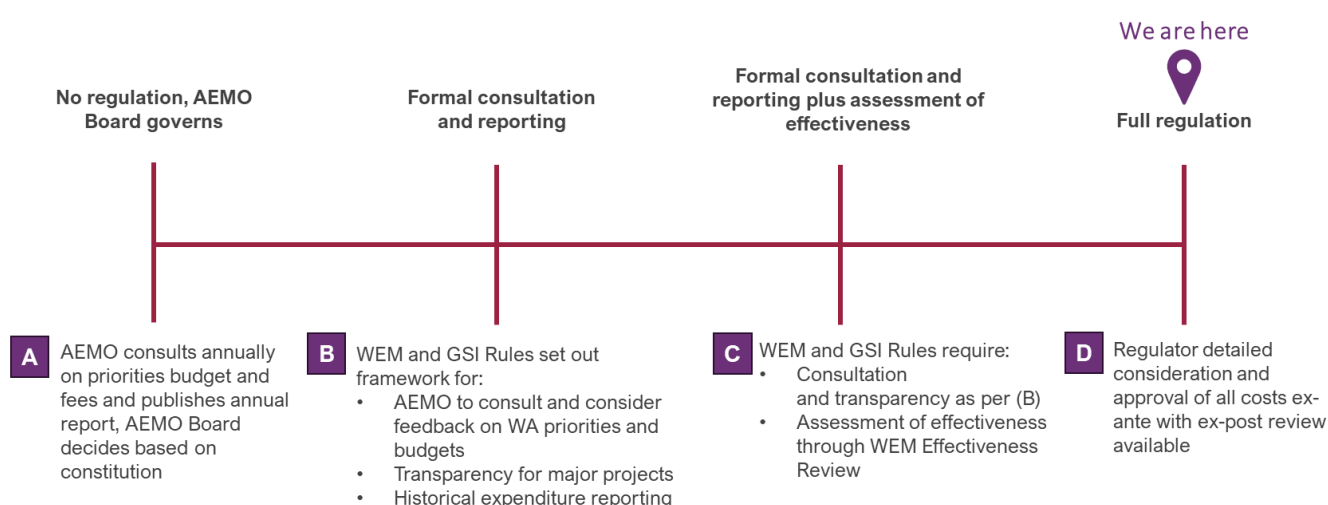
7. **Oversight** – adequate checks and balances are required to ensure an oversight body is able to undertake an independent assessment of AEMO's funding framework.

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 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. AEMO considers neither of the bookend options are consistent with the goals of the framework, or proposed design principles, and has instead proposed 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.

AEMO has engaged with stakeholders on an early draft of this rule change proposal, including with Energy Policy WA and the Market Advisory Committee (MAC) and has incorporated amendments to the proposed rules and throughout the body of this proposal to address the feedback received.

1.4 AEMO's proposed new budget and fee determination process

AEMO proposes to replace the current revenue and fee determination process outlined in sections 2.22A and 2.23 of the WEM Rules with a new process (proposed to be introduced in the currently blank section 2.22).

The proposed new budget and fee design process features the following key elements⁴:

- 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

⁴ As considered in options B and C in the spectrum of options presented in Figure 1.

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, as part of the three-yearly review of the effectiveness of the WEM.

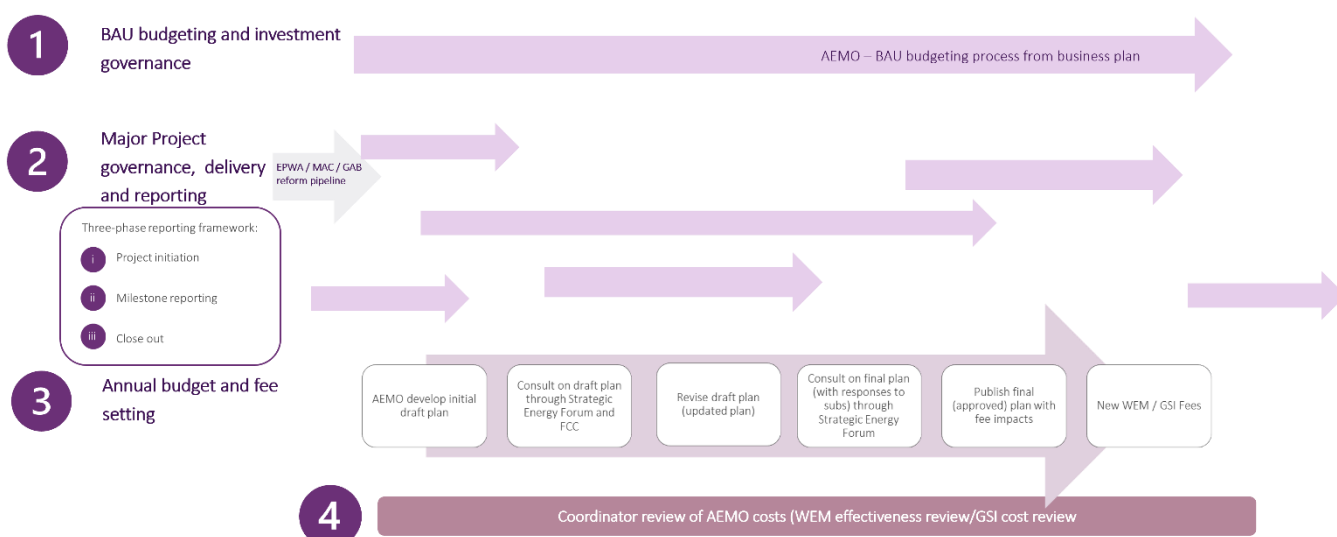
The key change from the existing framework is the change in the external governance body. Under the existing framework, the ERA is the third party responsible for assessing the prudence and efficiency of AEMO's costs and forecasts. As raised previously, the constraints of the current framework mean the 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 – 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 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 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.

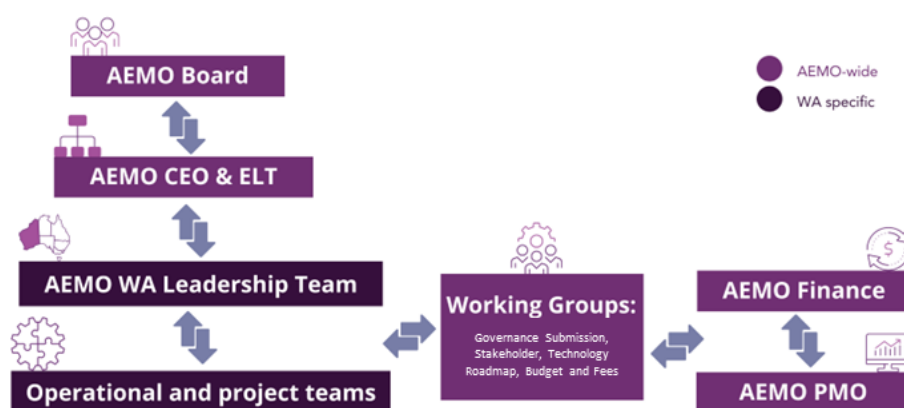
Collectively the Board possesses the core skills and experience prescribed in the AEMO Constitution and Board charter⁵ and comprises an independent Chair, a Managing Director (who is also the Chief Executive Officer (CEO)), and eight non-Executive Directors. The Board is ultimately accountable to AEMO's members (60 % Australian Governments and 40% industry and market participants).

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

⁵ More information can be found here: <https://aemo.com.au/about/corporate-governance/governance-processes-and-policies>.

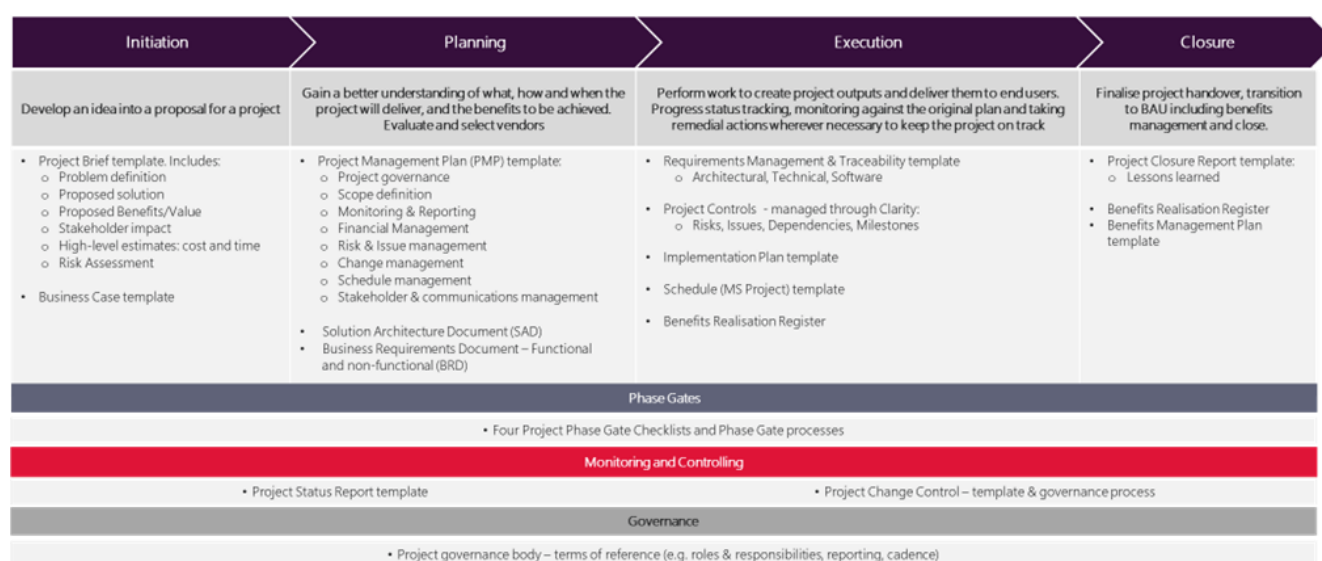
delivery, is governed by AEMO's Project Management Framework. Capital projects are subject to a detailed investment request, which outlines the following considerations:

- 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 WEM Rules to include a requirement for AEMO to:

1. consult with stakeholders on its priorities, activities and resulting budget and fees, and to respond to any stakeholder feedback received; and
2. 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)⁶ 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.
- 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 (proposed to be included in amended clause 2.22.3) 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 below 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

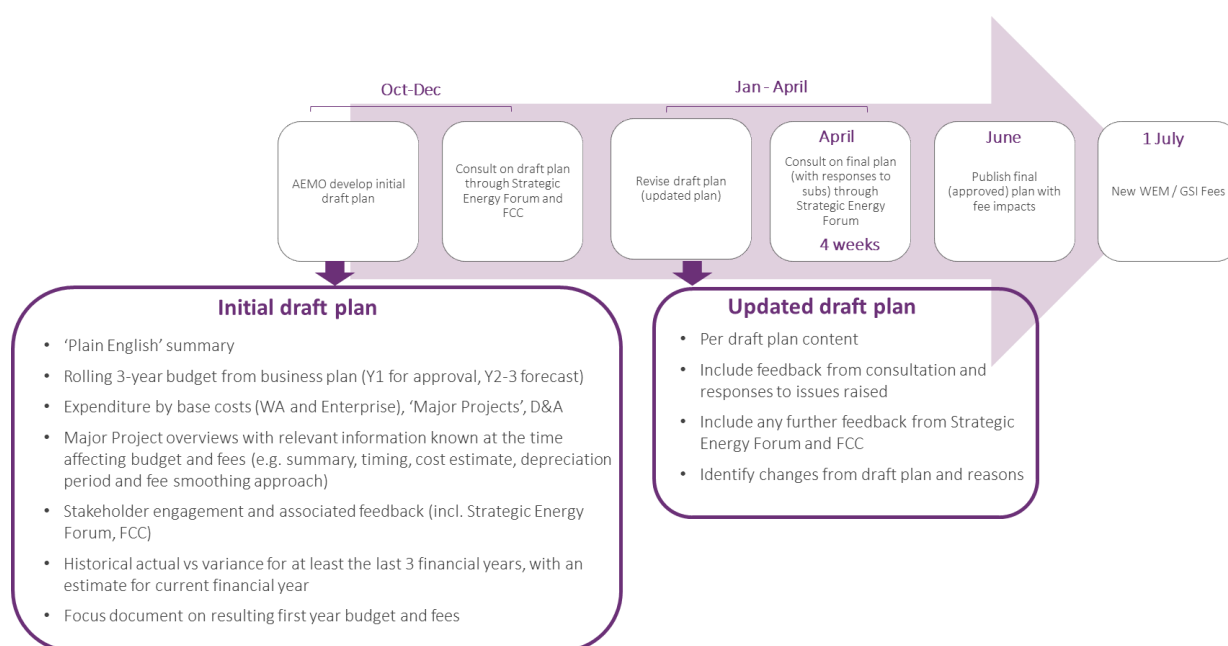
Engagement type	Existing Allowable Revenue process	Proposed Annual Budget and Fees process
Initial engagement – strategy and priority setting	Preparation for initial Allowable Revenue submission through various AEMO forums	Early consultation on proposed activities and priorities in preparation for draft 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

⁶ 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>

Engagement type	Existing Allowable Revenue process	Proposed Annual Budget and Fees process
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 5.

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 WEM Rules. The minimum level of information and the processes for consultation are outlined in the proposed new section 2.22 of the WEM Rules, 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 Market Participant Market 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 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 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	✓	✓

Key content	Existing Allowable Revenue process	Proposed Annual Budget and Fees process
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	✓	✓
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 WEM 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. This volatility in fees from one year to the next is inconsistent with Market Participants' desire 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 related to its costs⁷ 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.

⁷ 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 of 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. The Regulator and Coordinator Fees are relatively small compared to AEMO's Market Participant Market Fees, meaning that smoothing of these will provide little impact.

AEMO proposes to consult with stakeholders on smoothing options as part of its annual determination of its budget and fees.

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 in recent years, 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 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 Market Advisory Committee (MAC) 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 proposed new clauses 2.22.5 to 2.22.7 of the WEM Rules. In response to consultation on a draft of this Rule Change Proposal, AEMO proposes this to include consideration of the impact on AEMO, Market Participants, and the operation of the WEM. The additional reporting obligation is captured in the proposed new clause 2.22.8 of the WEM Rules.

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

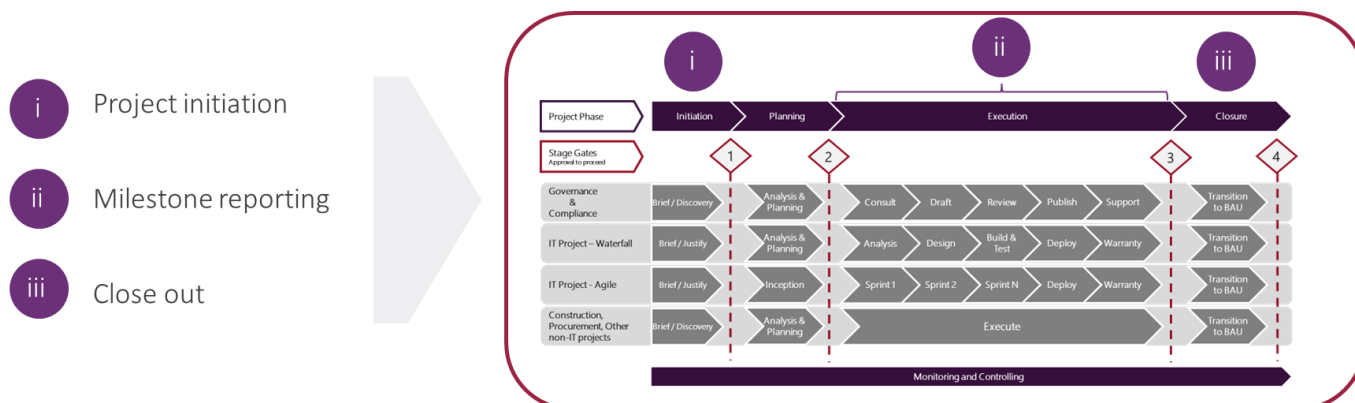
- a major Government-led reform or market development project or program of work;
- a major change to a function, responsibility, obligation or power of AEMO under these rules; and
- a major change to any of the systems (hardware or software) AEMO uses in the performance of its functions, responsibilities,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

If AEMO (in consultation with the MAC) determines a project is a Major Project, it will become subject to additional engagement with relevant stakeholders and the MAC (or working group, should these functions be delegated by the MAC). The MAC may be requested 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 Budget and Fees, as detailed above.

Similar to the annual budget process, the process for identifying, initiating and undertaking Major Projects aligns with our 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's cost estimate and fee impact;
 - any known information on Market Participant impacts including cost and change management;
 - key assumptions; and
 - risks with any proposed controls.
- MAC to provide feedback on 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 the delivery progress of a Major Project, including material variances (+/-) and reason for variances related to:
 - technical solution;
 - timeframes;
 - AEMO's cost estimate and fee impact;
 - key assumptions;
 - any known information on impacts to Market Participant including cost and change management; and
 - 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 timelines, including any challenges or opportunities;
 - key risks and success of mitigation measures;
 - lessons learnt and overall project commentary; and
 - any feedback received from 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 WEM 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).

Separately to this Rule Change Proposal, AEMO has, and will continue to, engage with the MAC⁸ to establish a MAC Working Group to consider and engage with AEMO on these Major Projects. AEMO proposes to refer to engagement with MAC despite the MAC potentially choosing to delegate this responsibility to a Working Group, as the Working Group has no formal standing under the WEM Rules.

AEMO intends this MAC Working Group would operate in a similar manner to 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 new MAC Working Group would be to collaborate with AEMO and Energy Policy WA to develop a 'WEM 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 Visibility of AEMO's performance

1.4.3.1 Annual financial reporting

AEMO considers visibility of its annual financial reporting is critical to stakeholders' understanding of AEMO's finances and financial performance.

Clause 2.22A.8 of the WEM 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).

⁸ More information on the establishment of the Working Group is included as Agenda Item 7 of the 25 July 2024 MAC Meeting Papers, available at: https://www.wa.gov.au/system/files/2024-07/mac_2024_07_25_meeting_papers.pdf

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>

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 Market Participants and energy consumers consistent with the Wholesale Market Objectives and the new State Electricity Objective.

The current drafting of clauses 2.16.13A and 2.16.13B of the WEM Rules (the 'WEM effectiveness review') requires the Coordinator to monitor market design problems and the effectiveness of AEMO in carrying out its functions under the WEM Rules. The Coordinator will therefore be able to assess the effectiveness of AEMO in carrying out its functions under new section 2.22, including whether AEMO has sought to recover its costs in accordance with the principles proposed under new clause 2.22 (including prudence and efficiency).

In accordance with clause 2.16.13D of the WEM Rules, the next WEM Effectiveness Review report is due to be published by 1 July 2025. AEMO has therefore proposed a transitional rule to exclude assessment of AEMO's performance under section 2.22 from the next WEM effectiveness review. The new framework would not have completed a full cycle and it would not be possible for the Coordinator to make an adequate assessment.

AEMO has also proposed a transitional rule requiring the Coordinator to specifically assess the effectiveness of the new budget and fees process under section 2.22 as well AEMO's effectiveness in fulfilling its new obligations. This is proposed to occur as part of the second WEM effectiveness review, scheduled to be completed by 1 July 2028. AEMO considers it necessary to ensure there is a thorough review of the effectiveness, benefits, and suitability of the new framework based on two-to-three years of operation (which will likely include the delivery of several Major Projects). This is intended to give confidence to key stakeholders that the process is fit-for-purpose.

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, amendments to the Reserve Capacity Mechanism, meter data handling investments, changes to WEM settlement timeframes), with other initiatives likely to emerge.

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 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.

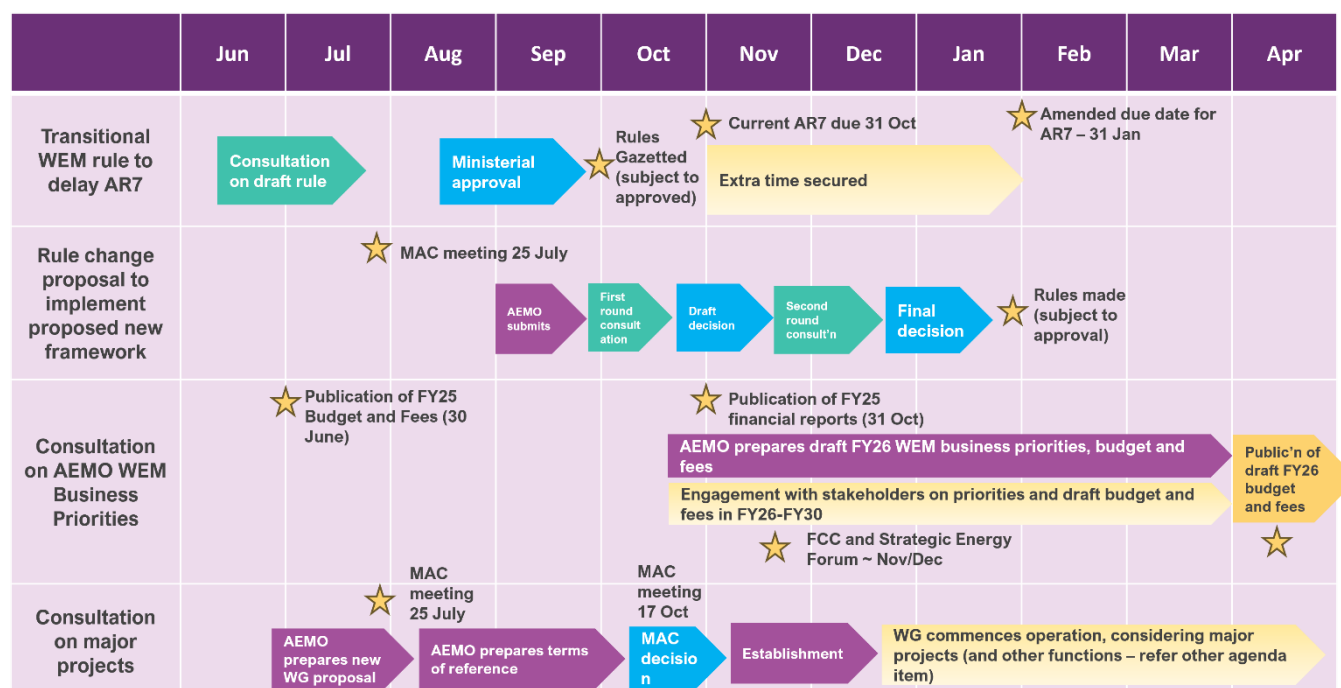
AEMO's next allowable revenue period (AR7) extends from 1 July 2025 to 30 June 2028. Under the current framework, AEMO is required to submit its AR7 proposal to the ERA by 31 October 2024. Energy Policy WA has consulted on, transitional WEM Rules provisions to defer this date until 31 January 2025. This is to allow adequate time to consider an alternative framework under the progression of this Rule Change Proposal.¹³

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 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.

Figure 8: Timeline for proposed rule changes and consultation



¹³ 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>.

3. Provide any proposed specific changes to particular WEM Rules: (for clarity, please use the current wording of the rules and place a ~~strikethrough~~ 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 that replaces 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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2.22A. AEMO’s annual financial and performance reporting

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

...

Explanatory Note

New transitional clause 1.XX.X is proposed to ensure the next WEM effectiveness review, required to be published before 1 July 2025, does not capture the new Annual Budget and Fees framework. This is because the first process will only be completed a short time ahead of the due date for the report, which would provide insufficient time for the assessment of the process.

New transitional clause 1.XX.XX is proposed to require the Coordinator (as part of its WEM effectiveness monitoring and reporting) to specifically assess whether the new Annual Budget and Fees framework is fit for purpose and delivers on the intended objectives, and whether AEMO has been effective in fulfilling/performing its new obligations under section 2.22.

These new clauses are proposed as transitional provisions as the Coordinator will already have scope to consider these matters on an ongoing basis under existing clauses 2.16.13A and 2.16.13B.

More information is provided in section 1.4.4 of this Rule Change Proposal.

1.XX.X. The Coordinator is not required to monitor, or report on the effectiveness of the operation of section 2.22 of the WEM Rules under clause 2.16.13A and 2.16.13B(b) until after 1 July 2025.

1.XX.Y. For the second report issued under 2.16.13D, the Coordinator must specifically assess and report on:

(a) the effectiveness of AEMO in carrying out its obligations under section 2.22 of the WEM Rules; and

(b) the effectiveness of the process for determining AEMO's Annual Budget and Fees under section 2.22 of the WEM Rules.

...

Explanatory Note

Proposed new section 2.22 is intended to replace the existing framework for AEMO's Allowable Revenue and Forecast Capital Expenditure under section 2.22A with the new Annual Budget and Fees framework.

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

...

2.22. ~~[Blank]~~Determination of AEMO's Annual Budget and Fees

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

Explanatory Note

Proposed new clause 2.22.2 outlines the principles AEMO must apply in seeking to recover its costs. The key difference from existing provisions under the WEM Rules is the ability 'smooth' fees over the short to medium term to reduce annual volatility in fees.

More information on revenue and fee smoothing is provided in section 1.4.1.3 of this Rule Change Proposal.

2.22.2. 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 clauses 2.22.2(e) to 2.22.2(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 WEM 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 Financial 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 Market Participants.

Explanatory Note

Proposed new clause 2.22.3 outlines the process and timing requirements for AEMO's Annual Budget and Fees, with subclause 2.22.3(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 subclauses 2.22.3(b) and (c).

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

2.22.3. 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 Market Participant Market Fees, prior to the publication of its draft Annual Budget and Fees under clause 2.22.3(b);
- (b) by 30 April each year, publish on the WEM Website a draft Annual Budget and Fees for public consultation for no fewer than 20 Business Days; and
- (c) by 30 June each year, publish on the WEM Website the final Annual Budget and Fees, including the level of Market Participant Market 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 published under clause 2.22.3(b).

Explanatory Note

Proposed new clause 2.22.4 is proposed to be introduced to give AEMO the flexibility to engage more broadly on its priorities and activities throughout the year, in a fit-for-purpose manner.

2.22.4. AEMO may undertake any further consultation on its proposed activities, priorities, budget and estimated level of Market Participant Market Fees as it considers necessary throughout the Financial Year.

Explanatory Note

Proposed new clause 2.224 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 Market Participants and interested stakeholders to make a considered submission on AEMO's draft Annual Budget and Fees under clause 2.22.3(b).

The proposed drafting of clause 2.22.5 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.

2.22.5. AEMO must include the following information, as a minimum, in its Annual Budget and Fees published under clauses 2.22.3(b) and 2.22.3(c):

- (a) relevant information regarding AEMO's activities and priorities for the coming 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 final Annual Budget and Fees;
- (c) 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;
 - 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) the level of Market Participant Market Fees for the coming Financial Year, including the impact of each expenditure category under clause 2.22.4(c) on Market Participant Market Fees;
- (e) information on each Major Project determined under clause 2.22.6, as relevant to the Annual Budget and Fees;
- (f) 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;
- (g) the unadjusted revenue path and Market Participant Market Fees resulting from the Annual Budget and Fees;

- (h) 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
- (i) details of any additional stakeholder engagement activities undertaken under clause 2.22.3(a) or 2.22.4, and any feedback received.

Explanatory Note

Proposed new clauses 2.22.6 to 2.22.9 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 an opportunity to understand in greater detail and require AEMO to provide the appropriate information on the progress of these projects on a regular basis.

Clauses 2.22.6 and 2.22.7 provide the criteria for Major Projects, and 2.22.8 provides an overview of the additional obligations that the determination of a project as a Major Project will trigger.

2.22.6. 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 WEM 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 WEM Rules; or
- (d) any other program or project raised by a Market Participant, the Market Advisory Committee or other relevant stakeholder for consideration by AEMO as a Major Project.

2.22.7. For the purposes of making a determination under clause 2.22.6, AEMO must:

- (a) consider the potential impact of the project or program on AEMO, Rule Participants and the operation of the Wholesale Electricity Market, having regard to the:
 - i. scope of change;
 - ii. cost; and
 - iii. timing (including AEMO's delivery timeframe); and
- (b) consult with the Market Advisory Committee and other relevant stakeholders.

2.22.8. If AEMO determines a project or program to be a Major Project under clause 2.22.6, AEMO must:

- (a) publish detailed information on the Major Project;
- (b) engage with Market Participants and other relevant stakeholders as required; and

(c) report to the Market Advisory Committee on the plan for, and progress of, the delivery of the Major Project.

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

Explanatory Note

Clause 2.22.10 is an optional clause for inclusion. AEMO would welcome feedback from interested stakeholders, and consideration by the Coordinator, as to whether the option of providing further guidance (in the form of a WEM Guideline or WEM Procedure) on these processes would be beneficial.

2.22.10. AEMO may develop and publish guidelines on the WEM Website regarding its Annual Budget and Fees process or the requirements associated with Major Projects under this section 2.22.

Explanatory Note

Proposed clause 2.22A.1(a) is consistent with the drafting in existing clause 2.22A.8 of the WEM Rules and retains the requirement for publication of the annual financial report. New clause 2.22A.1(b) is a new requirement for AEMO to report on its actual performance against its key priorities and performance measures.

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.

2.22A. AEMO's annual financial and performance reporting

2.22A.1. By 31 October each year, AEMO must publish on the WEM Website:

- (a) a financial report showing AEMO's actual financial performance against its final Annual Budget and Fees published under clause 2.22.3(c) for the previous Financial Year (including, without limitation, the actual amount paid to a Delegate compared to the budgeted amount); and
- (b) a performance report providing a summary of AEMO's performance against its key performance measures for the previous Financial 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 practicably 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:

...

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

- ~~(f) AEMO's final Annual Budget and Fees published under clause 2.22.3(c); 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 final Annual Budget and Fees under clause 2.22.3(c); 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:

...

- ~~(b) must be consistent with the Allowable Revenue approved by the Economic Regulation Authority final Annual Budget and Fees published under clause 2.22.3(c); and~~

...

...

Explanatory Note

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

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.~~

...

Annual Budget and Fees: means the document AEMO is required to publish under clause 2.22.3, which includes the budget and level of Market Participant Market Fees required for AEMO to perform its functions set out in clause 2.1A.2.

...

~~**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: means a project determined by AEMO under clause 2.22.6.

...

~~**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.~~

...

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 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 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 and fees, and the opportunity to 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 Market Participant Market 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 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 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 Market Participants directly. Under the new framework 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. The now-established 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, in the absence of any additional significant change. 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 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 Market Participants, including 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 to provide input into 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, with relevant activities and costs then included in the relevant annual 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 for Market Participants and opportunities for input.

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 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 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 at least \$1 million for the development an allowable revenue 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, scrutinise and provide input into the delivery of Major Projects.

Agenda Item 9: Market Development Forward Work Program

Market Advisory Committee (MAC) Meeting 2024_10_17

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@demirs.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
WEM Procedures Content Assessment	2 May 2024 MAC Meeting	Delayed	The project has been rescheduled for 2025 because of resource constraints and to better align with other projects
Essential Systems Services Framework Review	2 May 2024 MAC Meeting	Started	Working Group nominations are open
AEMO Procedure Change	1 May 2017 MAC Meeting	Open	Ongoing process
Power System Security and Reliability Standards	23 November 2023 MAC Meeting	Open	Four stages of work Stage 1 and 2 – completed. Stage 3 – continuing, commenced May 2024
Wholesale Electricity Market Investment Certainty Review	20 July 2023 MAC Meeting	Open	Drafting an Exposure Draft of WEM Amending Rules for consultation after considering stakeholder submissions to the Consultation Paper
Reserve Capacity Mechanism Review	21 September 2021 MAC Meeting	Finishing No further meetings	AEMO presented a proposal for the sequencing implementation of all WEM Amending Rules at the 20 August 2024 TDOWG meeting and is now considering, with EPWA, TDOWG's feedback
Cost Allocation Review	14 December 2021 MAC Meeting	Potentially finishing	AEMO presented a proposal for the sequencing implementation of all WEM Amending Rules at the 20 August 2024 TDOWG meeting and is now considering, with EPWA, TDOWG's feedback. The last set of changes (to Contingency Reserve Raise cost allocation) implementing the outcomes of this Review were included in the Amending Rules made by the Minister on 2 October 2024.

<p>Demand Side Response Review</p>	<p>16 March 2023 MAC Meeting</p>	<p>Finishing No further meetings</p>	<p>Minister to make the WEM Amending Rules.</p> <p>Review outcomes 1, 2, 3 and 12 were included in the Amending Rules made by the Minister on 2 October 2024.</p> <p>Review outcome 4 will be included in rule changes under development to facilitate AEMO's timeline for implementing the outstanding elements of the Reserve Capacity Mechanism Review Rules.</p>
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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"> • The MAC established the RCM Review Working Group (RCMRWG). Information on the Working Group is available at https://www.wa.gov.au/government/document-collections/reserve-capacity-mechanism-review-working-group, including: <ul style="list-style-type: none"> • the Terms of RCMRWG, as approved by the MAC; • the list of RCMRWG members; • 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. • The following papers have been released and are available on the RCM Review webpage at https://www.wa.gov.au/government/document-collections/reserve-capacity-mechanism-review: <ul style="list-style-type: none"> • the Scope of Works for the review, as approved by the Coordinator; • the Stage 1 Consultation Paper; • the Paper on the Review of International Capacity Mechanisms; • submissions on the Stage 1 Consultation Paper; • the RCM Review Information Paper (Stage 1) and Consultation Paper (Stage 2); • submissions on the RCM Review Consultation Paper (Stage 2); • the RCM Review Information Paper (Stage 2); • the RCM – WEM Amending Rules Exposure Draft; • submissions on the RCM – WEM Amending Rules Exposure Draft;

Table 2 – Market Development Forward Work Program

Review	Issues	Status and Next Steps
		<ul style="list-style-type: none"> • responses to stakeholder submissions on the Exposure Draft of the RCM Review WEM Amending Rules; and • the Wholesale Electricity Market Amendment (Reserve Capacity Reform) Rules 2023 available at Wholesale Electricity Market Amendment (Reserve Capacity Reform) Rules 2023 (www.wa.gov.au) • AEMO presented a proposal for the sequencing implementation of all WEM Amending Rules at the 20 August 2024 TDOWG meeting and is now considering, with EPWA, TDOWG's feedback.

Table 2 – Market Development Forward Work Program

Review	Issues	Status and Next Steps
Cost Allocation Review (CAR)	<p>A review of:</p> <ul style="list-style-type: none"> the allocation of Market Fees, including behind the meter (BTM) and Distributed Energy Resources (DER) issues; cost allocation for Essential System Services; and <ul style="list-style-type: none"> Issues 2, 16, 23 and 35 from the MAC Issues List. 	<ul style="list-style-type: none"> The MAC established the Cost Allocation Review Working Group (CARWG). Information on the CARWG is available at https://www.wa.gov.au/government/document-collections/cost-allocation-review-working-group, including: <ul style="list-style-type: none"> the Scope of Work for the review, as approved by the Coordinator; the Terms of Reference for the CARWG, as approved by the MAC; the list of CARWG members; 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. The following papers have been released and are available on the CAR webpage at Cost Allocation Review: <ul style="list-style-type: none"> the Consultation Paper; the International Review; submissions on the Consultation Paper; the CAR Information Paper; the Exposure Draft of the WEM Amending Rules implementing the outcomes of the CAR; submissions on the CAR WEM Amending Rules Exposure Draft; and response to submissions on the CAR WEM Amending Rules Exposure Draft. the Wholesale Electricity Market Amendment (Cost Allocation Reform) Rules 2024 available at Wholesale Electricity Market Amendment (Cost Allocation Reform) Rules 2024.

Table 2 – Market Development Forward Work Program

Review	Issues	Status and Next Steps
		<ul style="list-style-type: none"> Further changes to refine the cost allocation method for the Contingency Reserve Raise Service were presented at the 18 June 2024 TDOWG and consulted on within the Miscellaneous Amendments No. 3 Exposure Draft. The last set of changes (to Contingency Reserve Raise cost allocation) implementing the outcomes of this Review were included in the Amending Rules made by the Minister on 2 October 2024.
Review of the Participation of Demand Side in the Wholesale Electricity Market (WEM)	<p>The scope of this review is to:</p> <ul style="list-style-type: none"> identify the different ways that Loads/Demand Side Response can participate across the different WEM components; identify and remove any disincentives or barriers for Loads/Demand Side Response participating across the different WEM components; and 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. 	<ul style="list-style-type: none"> The MAC established the Demand Side Response Review Working Group (DSRRWG). Information on the DSRRWG is available at Demand Side Response Review Working Group, including: <ul style="list-style-type: none"> the Terms of Reference for the DSRRWG, as approved by the MAC; the list of DSRRWG members; 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. The following papers have been released and are available on the DSR Review webpage at Demand Side Response Review (www.wa.gov.au) <ul style="list-style-type: none"> the Scope of Work for the review, as approved by the Coordinator; the Demand Side Response Review Consultation paper; the submissions received on the Demand Side Response Review Consultation paper; the Demand Side Response Review Information Paper; the Demand Side Response Review – WEM Amending Rules Exposure Draft;

Table 2 – Market Development Forward Work Program

Review	Issues	Status and Next Steps
		<ul style="list-style-type: none"> the submissions received on the Demand Side Response Review – WEM Amending Rules Exposure Draft; response to submissions on the DSR WEM Amending Rules Exposure Draft; and response to stakeholder submissions Demand Side Response Review – WEM Amending Rules Exposure Draft. Review outcomes 1, 2 and 12 were included in the Amending Rules made by the Minister on 2 October 2024. Review outcome 3 was superseded by changes to registration of separate facilities where the connection point and measuring point are not electrically equivalent that was included in the Amending Rules made by the Minister on 2 October 2024. Review outcome 4 about the dynamic baseline method will remain open until rule changes to facilitate AEMO’s timeline for implementing the outstanding elements of the Reserve Capacity Mechanism Review Rules are made.
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"> At the 2 May 2024 MAC meeting, the MAC established the WEM Procedure Content Assessment Working Group and: <ul style="list-style-type: none"> supported the Scope of Work; and requested that the project schedule be revised. Following feedback at the 2 May 2024 MAC meeting and other discussions, the Terms of Reference is being revised.
Procedure Change Process (PCP) Review	A review of the PCP to address issues identified through Energy Policy WA’s consultation on governance changes.	<ul style="list-style-type: none"> 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.

Table 2 – Market Development Forward Work Program

Review	Issues	Status and Next Steps
		<ul style="list-style-type: none"> The Scope of Work for the review, as approved by the Coordinator is available here Wholesale Electricity Market Procedure Change Process Review (www.wa.gov.au) ACIL Allen has been appointed to assist with the PCP review. 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. 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. On 9 August 2024, the Coordinator finished stage 1 by publishing the ACIL Allen report and his response on the Coordinator’s website. EPWA is progressing stages 2 and 3 of the review and is revising a draft consultation paper to reflect the MAC’s feedback from the 5 September 2024 MAC meeting.
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"> 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. The Scope of Work for the review, as approved by the Coordinator is available here Market Advisory Committee Review (www.wa.gov.au) ACIL Allen was appointed to assist with the MAC Review. 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.

Table 2 – Market Development Forward Work Program

Review	Issues	Status and Next Steps
		<ul style="list-style-type: none"> The Coordinator received the ACIL Allen report on 28 June 2024 and will publish a response in due course.
Review of the Power System Security and Reliability (PSSR) Standards	<p>The scope of this review is to:</p> <ul style="list-style-type: none"> review the various PSSR related provisions in the instruments governing power system security and reliability in the SWIS; assess whether the combination of existing standards is effective to ensure power system security and reliability can be maintained; develop proposals for a single end-to-end PSSR standard and a centralised governance framework; and <p>draft amending Rules and other regulatory changes, as necessary.</p>	<ul style="list-style-type: none"> The MAC established the PSSR Standards Working Group (PSSRSWG). Information on the PSSRWG is available at Power System Security and Reliability (PSSR) Standards Working Group (www.wa.gov.au) including: <ul style="list-style-type: none"> the Terms of Reference for the PSSRSWG, as approved by the MAC; the Scope of Work the list of PSSRSWG members; meeting papers and minutes for the 14 December 2023, 1 February 2024, 29 February 2024, 18 April 2024 and 25 July 2024 PSSRSWG meetings; and meeting papers for the 10 October 2024 PSSRSWG meeting.

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"> (1) changing the Reserve Capacity Price (RCP) curve so it sends sharper signals for investment when demand for new capacity is stronger; (2) a 10-year RCP guarantee for new technologies, such as long-duration storage; (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; (4) emission thresholds for existing and new high emission technologies in the WEM; and (5) a 10-year exemption from the emissions thresholds for existing flexible gas plants that qualify to provide the new flexibility service. 	<ul style="list-style-type: none"> • The MAC established the WIC Review Working Group (WICRWG). Information on the WICRWG is available at Wholesale Electricity Market Investment Certainty (WIC) Review Working Group (www.wa.gov.au) including: <ul style="list-style-type: none"> • the Terms of Reference for the WICRWG, as approved by the MAC; • the list of WICRWG members; • meeting papers and minutes from the 31 August 2023, 11 October, 8 November, the 6 December 2023, 24 January, the 24 April and 29 May 2024 WICRWG meeting. • The following papers have been released and are available on the WIC Review webpage at https://www.wa.gov.au/government/document-collections/wholesale-electricity-market-investment-certainty-review, including: <ul style="list-style-type: none"> • the Scope of Work for the review, as approved by the Coordinator; • the WIC Review (Initiatives 1 and 2) Consultation Paper; and • the submissions received on the WIC Review (Initiatives 1 and 2) Consultation Paper. • EPWA is considering stakeholder submissions to the Consultation Paper and drafting an Information Paper and Exposure Draft of WEM Amending Rules to implement Initiatives 1 and 2 of the WIC Review.

Table 2 – Market Development Forward Work Program

Review	Issues	Status and Next Steps
Review of the Essential Systems Services (ESS) Framework	<p>The Coordinator of Energy (Coordinator) is conducting a review of the ESS Framework (the Review), incorporating:</p> <ul style="list-style-type: none"> • a review of the ESS Process and Standards under Section 3.15 of the WEM Rules; and • a review of the Supplementary Essential Systems Services Procurement Mechanism (SESSM) under clause 2.2D.1(h). <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"> • The MAC approved the establishment of the ESS Framework Working Group (ESSFRWG) to support the ESS Framework Review. Information on the ESSFRWG is available at Essential System Services Framework Review Working Group including: <ul style="list-style-type: none"> • The Terms of Reference for the ESSFRWG, as approved by the MAC. • A call for nominations for the ESSFRWG is currently open, with nominations closing on 21 October 2024. • The following papers have been released and are available on the ESS Framework Review webpage: <ul style="list-style-type: none"> • The Scope of Work for the Review.
Forecast quality	Review of Issue 9 from the MAC Issues List.	<ul style="list-style-type: none"> • This review has been deferred.
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"> • The timing for this review is to be determined.
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"> • This review has been deferred.

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.	EPWA has commenced work to improve AEMO's operational forecasting that will consider this issue.



Agenda Item 10: Overview of Rule Change Proposals (as of 4 October 2024)

Market Advisory Committee (**MAC**) Meeting 2024_10_17

- Changes to the report since the previous MAC meeting are shown in **red font**.
- The next steps and the timing for the next steps are provided for Rule Change Proposals that are currently being actively progressed by the Coordinator of Energy (**Coordinator**) or the Minister.

Rule Change Proposals Commenced since the Report presented at the last MAC Meeting

None

Rule Change Proposals Awaiting Commencement

None

Rule Change Proposals Rejected since Report presented at the last MAC Meeting

None

Rule Change Proposals Awaiting Approval by the Minister

None

Formally Submitted Rule Change Proposal

Reference	Submitted	Proponent	Title	Urgency	Next Step	Date
Standard Rule Change Proposals with First Submission Period Open						
RC_2024_01	28/08/2024	AEMO	AEMO's Allowable Revenue Framework	Standard	First Submission Period Closes	6/11/2024

Pre-Rule Change Proposals

None

Rule Changes Made by the Minister since Report presented at the 5 September MAC Meeting

Gazette	Date	Title	Commencement
2024/120	4/10/2024	Wholesale Electricity Market Amendment (Miscellaneous Amendments No 3) Rules 2024	<p>Schedule 1 and 2 commenced 7 October 2024.</p> <p>Schedule 3 will commence 1 January 2025.</p> <p>Schedule 4 will commence at a time specified by the Minister in a notice published in the Gazette.</p>

Rule Change Made by the Minister and Awaiting Commencement

Gazette	Date	Title	Commencement
2023/165	12/12/2023	Wholesale Electricity Market Amendment (Reserve Capacity Reform) Rules 2023	<ul style="list-style-type: none"> Schedules 2, 3 and 4 will commence at a time specified by the Minister in a notice published in the Gazette
2024/66	7/06/2024	Wholesale Electricity Market Amendment (Cost Allocation Reform) Rules 2024	<ul style="list-style-type: none"> Schedule 2 will commence at a time specified by the Minister in a notice published in the Gazette. The changes to Contingency Reserve Raise cost allocation were included in the Miscellaneous Amendments No 3 Amending Rules (see above)
2024/89	26/07/2024	Wholesale Electricity Market Amendment (Supplementary Capacity No. 3) Rules 2024	<ul style="list-style-type: none"> Schedule 2 will commence at a time specified by the Minister in a notice published in the Gazette

Agenda Item 11: Meeting Schedule for 2025

Market Advisory Committee (MAC) Meeting 2024_10_17

1. Purpose

MAC members to approve the schedule for the MAC's 2025 meetings.

2. Recommendation

That the MAC considers and approves the proposed MAC meeting dates for 2025.

3. Process

The MAC usually meets every six weeks, commencing in February of each year. The MAC Secretariat has developed, in consultation with the Independent Chair, the proposed schedule for MAC meetings for 2025. Where practicable timing of these meetings avoids public holidays and school holidays.

Due to the limited availability of the Independent Chair in the mornings, the 2025 MAC Meetings will be scheduled for 1:30pm on Thursdays.

The MAC is asked to consider and approve the proposed schedule for the 2025 MAC meetings.

Month	Proposed MAC Meetings
January 2025	1:30pm on Thursday, 30 January 2025
February 2025	
March 2025	1:30pm on Thursday, 27 March 2025
April 2025	
May 2025	1:30pm on Thursday, 15 May 2025
June 2025	1:30pm on Thursday, 19 June 2025
July 2025	1:30pm on Thursday, 24 July 2025
August 2025	
September 2025	1:30pm on Thursday, 4 September 2025
October 2025	1:30pm on Thursday, 16 October 2025
November 2025	1:30pm on Thursday, 27 November 2025
December 2025	