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Dear Lincoln

RESPONSE TO AEMO'S PROPOSAL TO ADJUST THE 2016-19 ALLOWABLE REVENUE

Bluewaters welcomes the opportunity to provide comments on the following papers:

- "Application to adjust the Allowable Revenue and Forecast Capital Expenditure for the Australian Energy Market Operator for 2016/17 to 2018/19" ([Consultation Paper](#)); and
- "2016–19 Allowable Revenue and Forecast Capital Expenditure Submission to Economic Regulation Authority - Supplemental Document to Support Adjustment to Allowable Revenue and Forecast Capital Expenditure" ([AR4 Supplementary Proposal](#)).

The Economic Regulation Authority (Authority) [published these papers on 7 March 2017](#).

Background

Bluewaters notes that, under the AR4 Supplementary Proposal, AEMO is seeking further expenditure approval in addition to that already [approved by the Authority on 16 December 2016](#) (Approved AR4). The Authority made this determination in response to [AEMO's Original Expenditure Proposal](#), taking into account the submissions received - including the [submission from Bluewaters](#) (Bluewaters' December Submission).

Bluewaters notes that the Approved AR4 and the AR4 Supplementary Proposal provide recovery of the following AEMO's expenditures: (a) AEMO's BAU¹ expenditures; (b) implementation expenditures associated with the legislated market reform (namely transfer of System Management functions to the AEMO and RCM3); and (c) the Electricity Market Review (EMR) development expenditures.

Bluewaters also understands that AEMO intends to submit another proposal later this year to recover the remaining market reform expenditures when (or if) the pending market reform policy decisions are finalised.

Bluewaters comments on the AR4 Supplementary Proposal

IT expenditures

Bluewaters notes that the IT costs are a substantial component of the proposed expenditures under the AR4 Supplementary Proposal. It is also noted that the proposed IT expenditures consist of the costs to: (a) modify existing data centres configuration; and (b) replace some power system operations tools – including the Energy Management System (EMS), the SWIS demand forecasting tool and the SWIS modelling tool.

Following discussions with the AEMO, it has provided some cost-benefit analyses to Bluewaters in regards to the proposed IT expenditures.²

Bluewaters recommends that the Authority reviews these analyses and satisfies itself that the proposed expenditures reflect "only costs which would be incurred by a prudent provider" (in accordance with MR 2.22.12(b)³).

¹ BAU means business as usual

² A copy of these analyses is available from AEMO or Bluewaters

EMR development cost

In the AR4 Supplementary Proposal, AEMO proposed EMR development expenditure which consists of the following:

- market development costs as discussed in section 2.4; and
- market solution design costs as discussed in section 2.5.

Bluewaters notes that proposing the EMR development cost is difficult considering that there was recently a change of government in Western Australia and the EMR policy position of the new government is still yet to be decided. On one hand, it would not be prudent for AEMO to overcommit resources because the new government may decide not to proceed with the current EMR work program. On the other hand, AEMO needs to commit sufficient resources to be ready for the possibility where the new government decides to continue with the EMR work program⁴ with the tight target market commencement date of 1 July 2019.

From discussions with the AEMO, Bluewaters would like to offer the following observations for the Authority's consideration:

- a) To support the market development work program:
 - i. the AEMO has incurred an operating expenditure of \$479K⁵ and capital expenditure of \$543K⁶ for the time period up to December 2016. This is equivalent to 9.7 FTEs⁷.
 - ii. the AEMO has proposed a capital expenditure of \$842K for calendar year 2017.⁶ This is equivalent to 4.2 FTEs.
- b) To support the market solution design work program, AEMO proposed a capital expenditure of \$1.342M for the second half of calendar 2017.⁸ This includes 8 to 10 FTEs.⁹

Bluewaters recommends that the Authority assesses if the proposed resource level reflects an adequate balance in light of the EMR policy uncertainty discussed above. In particular, the proposed 8 to 10 FTEs as discussed above.

Merger efficiency

In the Bluewaters' December Submission, it was recommended that the Authority "seeks to narrow the rate gap [between the NEM and the WEM] to the maximum extent possible" by "taking advantage of the merger efficiencies between the NEM and WEM operations."

Bluewaters recommends that the Authority assesses if such merger efficiency has been fully taken advantage of in the AR4 Supplementary Proposal.

Bluewaters anticipates that the market reform implementation expenditure proposal that AEMO intends to submit later this year will also take full advantage of all available merger efficiencies opportunities.

Cost benefit analysis

In order to ensure that the requirements under MR 2.22.12(b) are met, Bluewaters considers any future major expenditures proposed by AEMO should be supported by a robust cost-benefit analysis. This analysis should:

- a) articulate the various options available to AEMO for meeting its objectives;
- b) discuss the advantages and disadvantages for each option; and
- c) explain the reasons for choosing the recommended option.

In addition, the cost-benefit analysis should be included in the public consultation for the allowable revenue proposal.

³ "the Allowable Revenue and Forecast Capital Expenditure must include only costs which would be incurred by a prudent provider of the services described in clause 2.22.1, acting efficiently, seeking to achieve the lowest practicably sustainable cost of delivering the services described in clause 2.22.1 in accordance with these Market Rules, while effectively promoting the Wholesale Market Objectives."

⁴ Either in the current or modified form

⁵ Table 10 of the AR Supplementary Proposal

⁶ Table 11 of the AR Supplementary Proposal

⁷ FTE means Full Time Equivalent

⁸ Table 12 of the AR Supplementary Proposal

⁹ As advised by AEMO to Bluewaters on 29 March 2017.

Regulator Fee

As noted in Bluewaters' December submission, it is recommended that the Authority provides clarity on the Regulator Fees¹⁰ at its earliest convenience so that the total fees impacts can be assessed by Market Participants in a timely manner.

Should you have any questions regarding this submission please contact Ignatius Chin on 08 9261 2890 or Ignatius.Chin@Bluewatersps.com.au.

Yours sincerely

(signed)

Andrew Sutherland
Chief Operating Officer

¹⁰ The fees for the services provided by the Authority and the Rule Change Panel in undertaking their respective Wholesale Electricity Market related functions and other functions under the Market Rules.