



# Notice

31 May 2022

## Australian Energy Market Operator allowable revenue and forecast capital expenditure 2022/23 to 2024/25

### Final determination

The Economic Regulation Authority has published the [final determination](#) on the Australian Energy Market Operator's (AEMO) proposed allowable revenue and forecast capital expenditure for the period 1 July 2022 to 30 June 2025.

The ERA has approved \$142.3 million of allowable revenue and \$61.5 million in forecast capital expenditure for AEMO to perform its functions and provide services to the Wholesale Electricity Market (WEM) in Western Australia for the next three years. The approved WEM allowable revenue is \$10.1 million, or 6.6 per cent less than the \$152.4 million AEMO proposed. The approved WEM forecast capital expenditure is \$10.5 million, or 14.6 per cent less than the \$72 million AEMO proposed.

The ERA has approved the \$5.8 million in allowable revenue AEMO proposed for the Gas Service Information (GSI) functions AEMO provides to the wholesale gas market. The ERA has approved \$0.34 million forecast capital expenditure for AEMO's GSI functions, which is \$0.04 million or 10.5 per cent less than the \$0.38 million AEMO proposed.

To make this final determination the ERA has thoroughly reviewed the initial and revised information provided by AEMO in support of its AR6 funding proposal, including reports from AEMO's consultant. The ERA has engaged with AEMO's staff, reviewed all stakeholder submissions and considered advice from the ERA's technical consultants.

The ERA understands the risk of insufficiently funding AEMO to deliver its obligations and perform its functions, particularly in respect of the reforms underway in the WEM. Consequently, the ERA has approved forecast capital expenditure for each of the 22 WEM reform projects and for all but two Distributed Energy Resource projects. The ERA has not approved costs where there are identified errors in AEMO's data, overestimated labour costs and contingency amounts for unsubstantiated project risks.

In making the final determination, the ERA is strongly of the view that the approved allowable revenue will be sufficient to allow AEMO to deliver on its commitment to complete the WEM reforms on time and on budget by 2023. The ERA expects AEMO's next proposal to show a downward trend in proposed allowable revenue and forecast capital expenditure toward pre-reform levels.

### Changes between the draft and final determinations

There was an increase in the level of approved allowable revenue and forecast capital expenditure between the ERA's draft determination and final determination.

This is because the ERA has considered new information provided by AEMO and has reconsidered and approved costs for:

- AEMO to plan for the introduction of five-minute settlement periods in the WEM.
- New temporary staff positions to manage the transition to the new market design.
- Increased borrowing costs following recent increases in forecast borrowing rates.
- Two WEM projects for which costs were not approved in the draft determination because of a lack of justification and context.
- The transfer of proposed WEM reform costs into the AR6 period to recognise delays in AEMO's ability to recruit staff to work on its capital program.

## **Background**

On 17 December 2021, the ERA received AEMO's proposal for the sixth allowable revenue period from 1 July 2022 to 30 June 2025. The ERA published an issues paper on the proposal on 8 February 2022 and a draft determination on 31 March 2022 and received stakeholder feedback in response to both documents. On 29 April 2022, AEMO submitted a revised proposal to the ERA. The ERA was required to make the final determination by 31 May 2022.

## **Further information**

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