

29 May 2024



Nathan Viles
Assistant Director
Economic Regulatory Authority
Level 4, Albert Facey House
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Sent via email: publicsubmissions@erawa.com.au

Dear Mr Viles

AEMO AR6 SECOND IN-PERIOD ALLOWABLE REVENUE AND FORECAST CAPITAL EXPENDITURE PROPOSAL: DRAFT DETERMINATION

The Chamber of Minerals and Energy of Western Australia (CME) is the peak representative body for the resources sector in WA. CME is funded by member companies responsible for 86 per cent of the state's mineral workforce employment.¹

In 2022-23, the WA resources sector accounted for 47 per cent of WA's economic activity,² 91 per cent of goods exports,³ 47 per cent of investment⁴ and 11 per cent of employment (direct).⁵ The sector also contributed 33 per cent of the WA Government's general revenue, enabling the provision of public goods and services such as doctors and nurses, teachers and police.⁶

CME appreciates the opportunity to provide this submission on the Economic Regulatory Authority's (ERA's) draft determination⁷ regarding the Australian Energy Market Operator's (AEMO's) second in-period allowable revenue and forecast capital expenditure proposal within the current Allowable Revenue period (AR6; 1 July 2022 to 30 June 2025).

CME supports the ERA's decision to reject elements of AEMO's funding proposal where costs have not been sufficiently justified or where costs have a high level of uncertainty associated with them, particularly for capital costs with uncertain project scopes. CME and its members would like to raise concerns about the current trajectory and pace of increases in total electricity costs in the Wholesale Electricity Market (WEM).

Background

A net zero future represents a significant transition for the WA resources sector. CME members are already transitioning their current and future operations to achieve net zero emission targets by 2050 or earlier, meeting both voluntary corporate commitments, as well as obligations imposed by federal and state government regulation. We acknowledge the WA Government's work to date regarding the transition of the state's main electricity grids: the South West Interconnected System (SWIS) and the North West Interconnected System (NWIS), and wish to highlight the importance of this work continuing to progress at pace.

CME's position on the future energy system is that it must supply low emission, reliable and globally cost-competitive energy. This is critical for the decarbonisation of the resources sector. Therefore, we reiterate key recommendations from our 2024-25 State Pre-Budget Submission⁸ including that the WA Government release a draft master transmission plan for the SWIS by no later than mid 2024, in collaboration with industry, regulators and other key stakeholders. We have also flagged the need for appropriate resourcing to support the detailed planning and construction of transmission infrastructure to support industry decarbonisation.

¹ Government of Western Australia, [2022-23 Economic indicators resources data](#), full-time equivalents onsite under State legislation, DEMIRS, 10 November 2023.

² As measured by gross value add (GVA). Australian Bureau of Statistics, [5220 Australian National Accounts: State Accounts](#), Table 6.

³ Department of Energy, Mines, Industry Regulation and Safety (DEMIRS), [2022-23 Economic Indicators Resource Data File](#), 9 January 2024. Australian Bureau of Statistics, [5302 Balance of Payments and International Investment Position](#), Table 21.

⁴ Includes Gross Fixed Capital Formation plus minerals and petroleum exploration. Australian Bureau of Statistics, [5220 Australian National Accounts: State Accounts](#), Table 25. Australian Bureau of Statistics, [8412 Mineral and Petroleum Exploration](#), Table 4.

⁵ Australian Bureau of Statistics, [6291 Labour Force, Australia, Detailed](#), Table 5.

⁶ Includes Commonwealth grants from North West Shelf royalties, iron ore lease rentals, payroll taxes, transfer duties and other payments to government agencies. Government of Western Australia, [2022-23 Annual report on State finances](#), Department of Treasury, 28 September 2023, table 2.1.

⁷ Economic Regulatory Authority (ERA), [Australian Energy Market Operator's AR6 second in-period allowable revenue and forecast capital expenditure proposal: draft determination](#), 15 May 2024.

⁸ [CME 2024-25 WA State Pre Budget Submission](#)

The WA Government must act with urgency given the short timeframes for industry to make investment decisions on new electricity-generating and consuming projects which involve long planning and construction timeframes. The AEMO's 2023 Electricity Statement of Opportunities⁹ (ESOO) confirms this need for urgency, highlighting the need for 'significant and sustained investment in additional capacity, a fast-tracking of the pipeline of generation, storage and demand-side projects, and investment in transmission infrastructure.

Efficient and non-duplicative approvals processes for energy infrastructure projects will be vital to ensure a timely transition. With this in mind, it is important that WA's electricity market legislation does not conflict with planned Commonwealth Net Zero Plans or duplicate the Federal Government's Climate Change legislation and proposed Nature Positive reforms. Electricity Market Regulations should also be aligned with state government policies and programmes such as WA's proposed Climate Policy.

Recent electricity price developments and concerns

With regards to cost-competitive energy, CME would like to raise industry's concerns over the current trajectory of electricity costs in the WEM, noting strong increases in delivered electricity prices. AEMO's Quarterly Energy Dynamics Q4 2023 report¹⁰ outlined that the overall cost of Real-Time Market¹¹ energy costs had increased by 34 per cent relative to Q4 2022. This was driven by an overall increase of \$14.60/MWh in average Energy price and an increase in Essential System Services (ESS) costs of \$11.93/MWh. ESS costs represented 4 per cent of the total cost of energy in Q4 2022 but rose to 15 per cent of total costs in Q4 2023.

AEMO's second in-period funding proposal forecasts \$96 million in WEM operating costs in 2024-25, three times the operating costs in 2019-20. The exponential shape of projected market fees based on AEMO's funding proposal, as outlined in Figure 3 of the draft determination, is very concerning, projecting a 68 per cent increase in market fees in 2024-25 alone. Although market fees are a small percentage of the total cost of electricity in the WEM, the cumulative impact of increases in average energy prices, ESS costs and market fees is significant.

Views on the draft determination

Given our concerns regarding the trajectory of total electricity costs in the WEM CME supports the ERA's decision to reject elements of AEMO's funding proposal where costs have not been sufficiently justified or where costs have a high level of uncertainty associated with them, particularly for capital costs with uncertain project scopes. While CME acknowledges there are genuine labour cost pressures in the WA economy, we believe efforts must be made to mitigate these impacts and drive efficiencies if our state is to continue to have the globally cost-competitive energy supply required to support industry, jobs and livelihoods. CME appreciates the importance of market reforms including the Reserve Capacity Mechanism and Demand-Side Response reviews in ensuring reliable energy supply and supports the ERA's proposed approach regarding costs associated with these reviews.

We note that the ERA's draft determination only provides half of the additional funding sought by the AEMO, which will help to contain the pace of increase in total electricity costs in the WEM. However, the draft determination still proposes 20 per cent increases in total allowable revenue and capital expenditure under AR6.

Once again, we appreciate and thank the ERA for the opportunity to provide our views on the draft determination, and your efforts to ensure the costs of administering the WA Wholesale Electricity Market are prudent, efficient and delivered at the lowest sustainable cost.

For further information regarding this letter, please contact [REDACTED]

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⁹ Australian Energy Market Operator (AEMO), [2023 Wholesale Electricity Market \(WEM\) Electricity Statement of Opportunities \(ESOO\)](#)

¹⁰ Australian Energy Market Operator (AEMO), [Quarterly Energy Dynamics Q4 2023](#), p.71

¹¹ Energy and Essential System Services (ESS) excluding Frequency Co-optimised Essential System Services (FCESS) Uplift

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