

Ms Jenness Gardner
Chief Executive Officer
Economic Regulation Authority
PO Box 8469
PERTH BC WA 6849

Dear Ms Gardner

SUBMISSION ON ERA'S DRAFT DECISION ON AEMO'S AR6 SECOND IN-PERIOD SUBMISSION

Energy Policy WA welcomes the opportunity to provide comments related to the Economic Regulation Authority (ERA) Draft Determination on Australian Energy Market Operator's (AEMO's) allowable revenue and forecast capital expenditure in-period submission for the Allowable Revenue 6 (AR6) period.

Energy Policy WA is interested, in particular, in those elements of the second AR6 in-period submission that relate to the implementation of critical Wholesale Electricity Market (WEM) reform initiatives, including the outcomes of several WEM evolution reviews conducted by the Coordinator of Energy. I also note that work is ongoing on bedding down the New WEM, which commenced on 1 October 2023 and its implementation is still being refined.

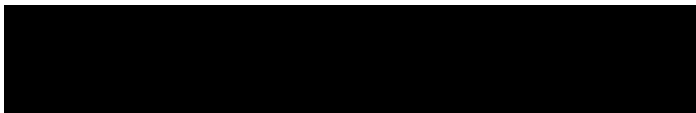
Energy Policy WA does not consider it is appropriate to comment on specific aspects of the ERA's determination of prudent and efficient allowable revenue and capital expenditure forecasts for AEMO. However, as we are responsible for leading the delivery of the ongoing reform of the WEM, I would like to highlight some of the key elements of the ongoing reform work program that are relevant to the AEMO in-period submission.

These reforms have been developed, and continue to be developed, with significant input and effort from many parties, including AEMO and the ERA. It is essential that they are successfully implemented, and any ongoing issues resolved, in a timely manner to deliver benefits for consumers against the new State Electricity Objective.

Energy Policy WA is working closely with AEMO and industry stakeholders to establish the implementation plan for the integration of the WEM evolution reviews outcomes. This work is essential to ensure power system challenges, and any issues experienced in the New WEM, are addressed in a timely manner.

AEMO's ongoing input and analysis is critical for completing the WEM Evolution Reviews and their implementation as well as the New WEM corrective work, currently undertaken between Energy Policy WA, the ERA and AEMO. I would like to highlight some key areas in which AEMO's expertise, rules drafting, systems development and data/analysis provision are critical for timely delivery against the market objectives:

- AEMO's support for the completion and implementation of Tranches of WEM Amending Rules, is necessary for the ongoing successful delivery of the WEM Reform. For example,



the next Tranche of WEM Amending Rules, to be released for consultation in early June 2024, addresses a number of changes required to the current WEM Rules, some of which have to be addressed urgently and would likely precipitate changes to the WEM market systems and processes. It is expected that further WEM Amending Rules will have to be developed and implemented during 2024-25;

- the outcomes of the, now completed, Reserve Capacity Mechanism Review and Cost Allocation Review, must be implemented in a timely manner. For example, the implementation of new Relevant Level Methodology and the new Flexible Capacity Product must be implemented during the course of 2024-25 to ensure the WEM continues to meet the relevant limbs of the State Electricity Objective;
- AEMO must plan and implement the outcomes of the Demand Side Response Review, for which the drafting of WEM Amending Rules is now complete;
- AEMO must commence the planning and implementation of some key outcomes of the WEM Investment Certainty Review, including the improved Reserve Capacity Curve and the Emissions Thresholds, as soon as practicable as these initiatives are key enabler to achieve of the State Electricity Objective;
- AEMO must implement the outcomes of this year's Supplementary Reserve Capacity (SRC) review in a timely manner, as it needs to be prepared should another SRC tender be required in advance of next Hot Season;
- AEMO's expertise and contribution is critical for the development of the end-to-end Power System Security and Reliability Standards and governance framework, as outlined by the Energy Transformation Taskforce;
- the implementation of the Distributed Energy Resources (DER) Roadmap is another key work program, which continues to gather pace. Energy Policy WA is working closely with AEMO and Western Power to continue to develop the policies related to the DER integration in the WEM. This work is essential to ensure power system challenges are identified and managed in a timely manner, as well as to enable the longer-term benefits to customers of effective DER integration in the system.
- AEMO expertise and contribution will be essential for the Essential System Services (ESS) Framework Review, which the Coordinator is commencing on 1 July 2024 under section 3.15 of the WEM Rules. This review is critical to ensuring ESS outcomes align with the intent of the New WEM;
- ongoing collaboration and analysis by AEMO in the current review of the high costs of ESS since the commencement of the New WEM, currently undertaken by Energy Policy WA, the ERA and AEMO, is critical for the success of this project. It is very likely, at this stage, that this review would result in urgent changes to AEMO's systems and process, and that this is likely to require considerable development effort by AEMO; and
- AEMO's ongoing monitoring and analysis work is critical for all of us to identify and understand, in a timely manner, emerging power system and network challenges arising from the system transition.

AEMO is in unique position to provide its experience, knowledge, skills and wealth of information to ensure the success of the ongoing reforms and reviews. Its ongoing and timely effort is required for the design and implementation of changes to the WEM Rules and, importantly, the necessary system changes.

I note that other key stakeholders, including existing market participants and potential investors, are eagerly awaiting AEMO's implementation of the outcomes of the WEM development reviews. I also note that there are risks associated with investment certainty, if implementation of these outcomes is delayed because of AEMO's inability to deliver in a timely manner.

While a focus on minimising costs for consumers is very important, it is also important that AEMO is adequately funded to effectively facilitate and deliver in the above areas in the long term interest of consumers.

If you have any questions regarding the content of this letter, please contact [REDACTED]

Yours sincerely

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29 May 2024