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30 May 2024

Economic Regulation Authority
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via email to: publicsubmissions@erawa.com.au

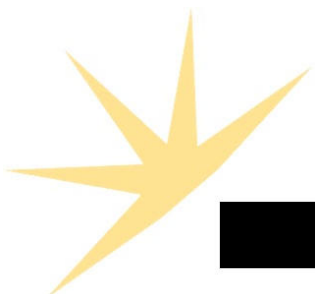
DRAFT DETERMINATION ON AUSTRALIAN ENERGY MARKET OPERATOR'S ALLOWABLE REVENUE 6 SECOND IN-PERIOD FORECAST CAPITAL EXPENDITURE ADJUSTMENT

Synergy welcomes the opportunity to make a submission in response to the Economic Regulation Authority's (**ERA**) draft determination on the Australian Energy Market Operator's (**AEMO**) second in-period allowable revenue and forecast capital expenditure adjustment (**draft determination**).

Synergy supplies electricity to more than 1 million residential and commercial customers and as the state's largest electricity generator and retailer, incurs around 45% of the WEM fees.

AEMO's second in-period funding submission during AR6 is seeking a \$59.2 million increase in allowable revenue and a \$39.0 million increase in forecast capital expenditure. The ERA previously approved \$142.3 million of allowable revenue and \$108.3 million of forecast capital expenditure through the initial AR6 determination in May 2022 and the first AR6 in-period submission in September 2023. The forecast annual operating cost of \$96.0 million to operate the WEM in 2024/25 is now more than double AEMO's costs for 2022/23, which was the first year of the AR6 funding period.

The ERA must assess AEMO's request for allowable revenue and forecast capital expenditure to ensure that it only includes costs that would be incurred by a prudent provider, acting efficiently, to achieve the lowest practicably sustainable cost of performing AEMO's functions.



Draft determination

AEMO plays a critical role in relation to the Wholesale Electricity Market (**WEM**) operation and accordingly should be adequately funded to perform its market functions, provided it can evidence it is acting efficiently, to achieve the lowest practicably sustainable cost of performing its functions.

It is appropriate the ERA's final determination provide market participants with visibility on what the quantifiable market benefits will be realised a result of the funding proposal, consistent with s.26 of the *Economic Regulation Act 2003*.

Market fees

AEMO has estimated an increase in market fees of \$1.04 per MWh (a 68 per cent increase) to \$2.57 per MWh for financial year 2024/25. As several WEM reform projects have yet to be completed, full project costs are not reflected in market fees. The ERA's final determination on AEMO's second in-period submission is expected at the end of June 2024 with the Allowable Revenue 7 (**AR7**) proposal then to be submitted at the end of October 2024. The magnitude of the AR7 changes are not yet known but given on-going and future AEMO activities, further WEM market fee increases are considered likely and market participants have no visibility as to when market fees may ultimately stabilise and reduce. Consequently, Synergy is concerned over the potential for steep market fee step changes and advocates AEMO recovering market fees via a glide path approach over a reasonable period to avoid market participant fee shock.

Labour cost

Synergy notes the ERA has proposed in its draft determination to reduce AEMO's labour spend from \$33.2M to \$8M in 2024/25 on the basis AEMO's in-period submission provided insufficient detail to substantiate its labour funding request. Synergy expects it reasonable for AEMO to be able to present a business case to the ERA for the additional funding including an estimation of the market benefits that a retention of existing staff will bring. In doing so, the ERA should consider the efficiency of different labour sourcing options including insourcing vs outsourcing, developing internal staff capability vs use of external consultants, transferring existing IT from build to operation vs new recruitment etc. For balance, the ERA should also give due consideration to what the market impact would be if AEMO is under resourced to reasonably perform its WEM functions.

Forecast capital expenditure

AEMO is seeking \$39 million in additional forecast capital expenditure for 2024/25 to commence five new projects that it considers it must commence before the end of the AR6 period. The ERA has sought stakeholder feedback on the priority and timing of the AEMO projects. As a general comment Synergy notes the pace of project development for 2024/25 is ambitious. Synergy advocates the ERA assessing the forecast capital expenditure, in

conjunction with AEMO, to confirm the projects can be delivered within 12 months in terms of planning, delivery and benefits realisation.

Synergy's views on the five projects are as follows:

1. Reserve capacity mechanism review

Synergy considers it reasonable for AEMO to be provided with some contingency for this review.

2. Distributed energy resource aggregator participation

Synergy supports AEMO's full funding request.

3. Metering system upgrade and cost allocation review

Synergy supports the ERA's decision and notes AEMO can submit a more definitive funding request as part of AR7 or a mid-period request once regulatory certainty exists in terms of future WEM rule requirements. Moving this work to AR7, consistent with WEM rule 2.22A.6(d), may also reduce future costs as it is reasonable to expect that greater project and regulatory specificity will result in more accurate costing, resourcing (specifically contingency) and benefit identification.

4. Demand-side response review

Synergy considers that the ERA's draft determination should not prevent AEMO undertaking this review.

5. WEM investment certainty review

Synergy considers that the ERA's draft determination should not prevent AEMO undertaking this review.

Unused capital expenditure

In response to past allowable revenue proposals, Synergy raised concerns over unused forecast capital expenditure being used for other projects that may not otherwise meet the regulatory test. However, the AR6 draft determination does not clarify whether the ERA has considered whether any previously approved allowable revenue could have been used to offset (or partially offset) AEMO's AR6 second in-period funding request. Synergy suggests (if not already done so) that this analysis be conducted and the results published as part of the ERA's final determination.

Benchmarking

Synergy concurs with the ERA and AEMO that there are difficulties in benchmarking allowable revenue and forecast capital against the costs of providing similar functions and/or projects in other jurisdictions. However, Synergy also notes new developments such as security of critical infrastructure requirements provide new sources of benchmarking data for AR7 assessment purposes specifically in relation to cyber and power security.

Major project uncertainty

Synergy is sympathetic to AEMO's position in terms of forecasting allowable revenue and capital expenditure in a dynamic and rapidly evolving WEM that can involve a high level of uncertainty until such time as market rules are definitive in their requirements.

The ERA is also constrained that it cannot approve funds for project phases beyond planning and feasibility because an assessment of prudence and efficiency is not possible without a well-defined project scope.

The current reliance on in-period submissions to fund AEMO's operations is also problematic for market participants who rely on reasonable allowable revenue and capital expenditure forecasts so they can budget for market fee liability.

Given the above, Synergy considers there is a need to review the operation of WEM market rule 2.22 at a future date, preferably against the State Electricity Objective once effected.

Effectiveness of expended information technology investment

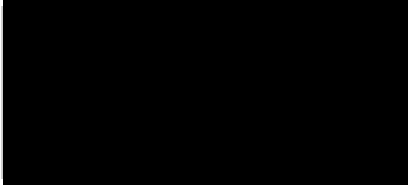
When the ERA is reviewing an allowable revenue proposal it is appropriate the effectiveness of past information technology investments is considered in terms of future information technology investment.

Concluding comments

Synergy acknowledges AEMO, as the market and system operator, is best placed to understand and ultimately control its costs associated with the establishment of the new market arrangements and continued evolution of the WEM. Synergy also recognises that the pace of change in the energy transition presents challenges for all parts of the energy sector and acknowledges AEMO's efforts to ensure its operations are a match for a rapidly evolving market. However, AEMO's costs, that are incurred by market participants, must be evidenced to be prudent and efficient and the benefits of those costs be transparent and realised.

Synergy confirms that this submission can be made public. Should you require further information regarding any of the comments made in this submission, please contact me.

Yours sincerely

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