



27 May 2024

Economic Regulation Authority
Level 4, Albert Facey House
469 Wellington Street
Perth WA 6000

Sent via email to: publicsubmissions@erawa.com.au

Dear Mr Viles

RE: Support for the ERA's Draft Determination on AEMO's AR6 Second In-Period Funding Proposal

I am writing to express support for the Economic Regulation Authority's (ERA) draft determination on the Australian Energy Market Operator's (AEMO) AR6 second in-period allowable revenue and forecast capital expenditure proposal.

Collgar acknowledges AEMO has been tasked with delivering large-scale operational reform with tight deadlines. These pressures on AEMO have led to substantial cost pressures on Market Participants dealing with increased costs from the implementation of SCED and the Real-Time Market.

The ERA's draft determination to approve \$27.7 million in allowable revenue and \$21.0 million in forecast capital expenditure demonstrates a balanced approach that acknowledges the necessity of certain expenditures while ensuring that costs are justified and efficiently incurred. The ERA's approval of operational expenditures reflect a well-considered assessment of AEMO's requirements.

It is concerning that AEMO has continually and substantially under-estimated WEM Reform costs in both it's AR5 and AR6 processes. Collgar would advocate that the ERA continue to investigate the reasons why AEMO has been unable to accurately forecast these costs, including if AEMO has undertaken any reviews of its forecasting processes.

Collgar disagrees with the ERA's view that benchmarking AEMO's costs against other jurisdictions does not provide significant benefits. The ERA has outlined that clause 2.22A.5(c) of the WEM Rules states 'where possible, the Economic Regulation Authority should benchmark the Allowable Revenue and Forecast Capital Expenditure against the cost of providing similar functions and/or projects in other jurisdictions;'. Collgar agrees that a comparison with the NEM will not provide sufficient difference for comparison. A comparison of international jurisdictions should at least provide the ERA with a benchmark for certain components of AEMO's duties. AEMO should have sufficient rigour in it's accounting to isolate project expenditure for each of these components. While

we acknowledge the challenges and differences in market designs, we believe that a well-structured benchmarking exercise could offer extremely valuable insights into cost-efficiency opportunities and best practices that AEMO could adopt. This benchmarking should be considered for the next allowable revenue review period.

We support the ERA's decision to reject certain elements of AEMO's proposal, such as the additional funding for unspecified labour costs and contingencies. By requiring AEMO to provide more detailed justifications for these costs, the ERA ensures that only necessary and efficiently incurred expenditures are approved. This approach not only protects market participants from unwarranted fee increases but also promotes confidence in the regulatory process.

We acknowledge that AEMO has been tasked with implementing extensive reforms. However, it is crucial to assess whether the benefits of these reforms justify the costs. We suggest that before embarking on further reforms, a comprehensive review of the cost-benefit outcomes of the reforms implemented to date should be conducted. This review would help ensure that future reforms are both necessary and provide value for money. The ERA is in a unique position to undertake analysis and provide independent and unbiased advice if these projects will have sufficient economic justification based on AEMO's proposed costs.

Yours sincerely

