

20 November 2020

Sara O'Connor
Assistant Director, Market Regulations
Economic Regulation Authority Western Australia

Submitted via email [info@erawa.com.au]

Dear Ms O'Connor

Australian Energy Market Operator in-period funding application

Energy Networks Australia welcomes the opportunity to provide a response to the Economic Regulation Authority (ERA) on the Australian Energy Market Operator's (AEMO) in period funding application, [Adjustment to 2019-22 Forecast Capital Expenditure - DER Roadmap Implementation Costs](#).

Energy Networks Australia (ENA) is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

Overall perspectives on the application for in period funding

Distributed energy resources (DER) are an increasingly significant part of Western Australia's energy mix. ENA strongly supports implementation of the DER Roadmap to enable DER to be fully integrated into the system, thereby providing benefits and value to all customers.

While ENA acknowledges that AEMO has an expanded role to support implementation of the DER Roadmap, ENA considers further justification for the forecast capital expenditure is needed to determine whether the expenditure is prudent and efficient, and therefore in the long-term interests of consumers.

Some of the activities seeking funding appear to duplicate the responsibilities of the relevant distribution network service providers (DNSPs) and possibly work already undertaken as part of previous work programs.

Support for progressing Energy Transformation Strategy

ENA supports the work undertaken on Western Australia's Energy Transformation Strategy, including the development of the DER Roadmap. The challenges of integration and grid orchestration of DER are as significant for Western Australia's Wholesale Electricity Market (WEM) as they are in the National Electricity Market (NEM).

AEMO and Western Power will be instrumental in implementing the Energy Transformation Strategy and it is necessary that they are appropriately funded to perform their duties efficiently.

AEMO's proposed additional expenditure must be prudent and efficient

ENA acknowledges that AEMO has an expanded role to support the implementation of WA's DER Roadmap and appreciates the expenditure forecasting challenges AEMO faces.

However, AEMO's in-period funding submission seeks a significant increase of 29 per cent on approved capital expenditure and 39 per cent above that approved by the ERA for WEM reform during the current allowable revenue period.¹ AEMO's Western Australia funding request of an additional \$18.9 million for the 2019-22 period, of which \$18.5 million is proposed for the 2020-22 period, is comparable to AEMO's 2020-21 DER integration budget for the entire NEM.²

Customers would ultimately bear the costs of this proposed expenditure, and it should be carefully assessed for prudence and efficiency, therefore ensuring that it is in the long-term interests of consumers.

Staffing arrangements

In its draft findings report, the ERA notes that 77 per cent of AEMO's funding submission is to pay for additional staffing resources for the 2020-21 financial year and that base salary rates were about 25 per cent higher than publicly available market rates for equivalent roles.

The ERA also notes that nearly 60 per cent of the internal positions are allocated to the three highest unit day rates out of the five proposed by AEMO.³

There may be valid reasons why labour costs are high in this instance, for example because the work is technically complex, in a relatively new field, and specialists may be required, but these reasons have not been detailed in AEMO's submission. ENA recommends that the ERA seek further supporting information from AEMO to justify its proposed costs, especially in the context that AEMO's total employment costs have risen 104 per cent in the last four years⁴.

¹ Economic Regulation Authority, [Australian Energy Market Operator in-period funding submission for implementation of the Distributed Energy Resources Roadmap – ERA Draft findings Report](#) (Nov 2020), p. 12.

² Budget of \$20.4m - Australian Energy Market Operator, [2020-21 AEMO Budget and Fees](#) (Jun 2020) p. 4.

³ Economic Regulation Authority, [Australian Energy Market Operator in-period funding submission for implementation of the Distributed Energy Resources Roadmap – ERA Draft findings Report](#) (Nov 2020), p. III.

⁴ Australian Energy Market Operator, [2019 Annual Report & 2015 Annual Report](#), Notes to the Financial Statements, Expenses, Employee benefits and Capitalised employee costs

Project Symphony

AEMO has sought \$9.5 million for its portion of costs for supporting the delivery of Project Symphony, a joint project between Western Power, Synergy and AEMO.

Given the detailed breakdown of expenditure and resources has been redacted from the published submission it is difficult for stakeholders to assess whether the funding sought is prudent and efficient.

Based on what we know, ENA supports the ERA's proposed \$2.2 million reduction in Project Symphony costs, largely due to reduced labour unit rates and removal of project contingency.

AEMO indicates that work package 7 of Project Symphony, 'end to end transactions', will be pursuing a centralised market platform approach to DER orchestration.⁵

ENA's finding from the Open Energy Networks project (OpEN project) is that pursuing a centralised market approach to DER orchestration is a high cost approach that bears significant risk of stranded assets, while a scalable and proportionate approach would deliver optionality value and minimise the risk to consumers of investing heavily under uncertain future DER uptake scenarios⁶. While the OpEN project only delivered a cost-benefit analysis for the NEM, learnings from the project are likely to be similarly applicable in the WEM.

ENA found that starting with a decentralised approach and incrementally building DER orchestration according to levels of DER penetration in specific areas of the network and resolving network issues in a targeted, simple and fit for purpose approach leads to better cost-benefit outcomes in the long term.

AEMO's proposed additional expenditure should not duplicate existing processes

AEMO is proposing to undertake expenditure in several defined areas such as technology integration, DER participation and a virtual power plant pilot project.⁷ ENA notes that there is potential for expenditure in these areas to be duplicative of existing outcomes for customers and communities in the WEM.

For example, it appears that some areas of the Technology Integration workstream appropriately fall in the roles and responsibilities of the electricity distribution network provider, and roles for which they are already funded to perform. For example, AEMO has proposed expenditure of \$3.3 million to develop the direct control of consumer inverters, while the Renewable Integration Study describes the process for "shedding"

⁵ Australian Energy Market Operator, [Adjustment to 2019-22 Forecast Capital Expenditure – DER Roadmap Implementation Costs](#) (Sep 2020), p. 34

⁶ Energy Networks Australia & Australian Energy Market Operator, [Open Energy Networks Position Paper](#) (May 2020), p. 38.

⁷ Australian Energy Market Operator, [Adjustment to 2019-22 Forecast Capital Expenditure – DER Roadmap Implementation Costs](#) (Sep 2020), p. 24-43.

rooftop solar PV that is actioned via the DNSP, following an AEMO instruction.⁸ The direct control of inverters is the responsibility of the DNSP.

We once again welcome this consultation and thank the ERA for the opportunity to provide input. If you wish to discuss any of the matters raised in this letter further, please contact Chris Gilbert, Senior Economic Advisor, at cgilbert@energynetworks.com.au.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "A. Dillon".

Andrew Dillon
Chief Executive Officer

⁸ Australian Energy Market Operator, [Renewable Integration Study: Response to Stakeholder Submissions](#) (Oct 2020) p. 20-21.