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# Western Australia Wholesale Electricity Market 2021-22 AEMO Budget and Fees

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**June 2021**

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# Executive summary

This document sets out the Western Australia wholesale electricity market budget and fees for 2021-22.

AEMO is an independent, not-for-profit public company limited by guarantee, owned jointly by energy industry members and the Commonwealth, New South Wales, Queensland, South Australian, Tasmanian, Victorian, Western Australian and Australian Capital Territory governments.

A core activity of AEMO is the operation of Western Australia's major energy systems and markets, balancing supply and demand in real time, to provide safe, reliable and affordable energy to the majority of the West Australians.

AEMO operates the Western Australian Wholesale Electricity Market (WEM) for the South West Interconnected System (SWIS), manages the Reserve Capacity Mechanism (RCM) and the settlement of all WEM transactions.

AEMO is implementing the WEM Reform Program and DER Roadmap activities as set out in the WA Government's Energy Transformation Strategy. The WEM reforms will introduce changes to the operation of both the WEM and the RCM, including revisions to Power System Security and Reliability frameworks and the introduction of Security Constrained Economic Dispatch, Facility Bidding and constrained access arrangements. The distributed energy resources (DER) Roadmap is a multi-year plan to better integrate DER and ensure DER benefits are shared across all community members.

In 2021-22, operating expenditure is increasing by \$2 million largely reflecting resourcing and investment costs associated with new obligations and delivery against the Energy Transformation Strategy. Also placing pressure on WEM fees is an estimated 2.9% fall in 2021-22 energy consumption reflecting continued uptake of rooftop PV, and lower business sector demand.

For the coming year, WEM fees have been maintained at the 2020-21 level, enabled by a financial surplus arising from lower than budget operating expenditure in prior years. In addition, an estimated financial surplus of \$1.6 million is being carried into the AR6 period that will assist in managing price impacts arising from the implementation of reform program.

AEMO is actively seeking to improve the transparency and rigour of its budget fees across all our functions and jurisdictions. This year, AEMO initiated early engagement with and sought feedback from a representative group of stakeholders on AEMO's draft budget and fees and capital projects alongside market consultation processes. Feedback from participants informed AEMO's final budget adoption. AEMO intends to continue and refine this approach in future years.

In the WEM specifically, AEMO is required to submit its allowable revenue and forecast capital expenditure to the WA Economic Regulation Authority (ERA) every three years. Aligned with AEMO's commitment to transparency and engagement with market participants and industry, AEMO also provides regular updates through its ongoing WA electricity and gas consultative forums on its capital projects and operating expenditure as well as consulting with the sector on the development of each subsequent submission to the ERA.

The remainder of this WEM 2021-22 Budget and Fees document outlines the summary of WEM fees for 2021-22 and its ERA revenue.

## 1.1 Summary of Fees

Table 1 Summary of WEM fees

Fee	Budget 2020-21	Budget 2021-22	Variance (\$)	Variance %
AEMO WEM Market Operator fee (\$/MWh)	0.380	0.380	0.000	0.0%
AEMO WEM System Management fee (\$/MWh)	0.514	0.514	0.000	0.0%
<b>Total AEMO WEM fee (\$/MWh)</b>	0.894	0.894	0.000	0.0%
ERA WEM fee (\$/MWh)	0.174	0.195	0.021	12.1%
EPWA Coordinator Fee (\$/MWh)	N/A	0.075		

## 1.2 Contact for inquiries

For all queries on budget and fees, please contact [budgetandfees@aemo.com.au](mailto:budgetandfees@aemo.com.au)

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# 2. Western Australia Wholesale Electricity Market (WEM)

## 2.1 Budget

AEMO's WEM annual revenue requirement, as reflected in its budget, is established to recover expenditure associated with its operations and the other WEM related services consistent with its legislative requirements.

To improve transparency and rigour of its consolidated budget and fee process and outcomes, AEMO established a Financial Consultative Committee consisting of a national representative group of stakeholders that have reviewed and provided comment on a draft AEMO consolidated 2021-22 budget. Financial Consultative Committee discussions on the draft budget have been taken into consideration by the AEMO Board in approving the final 2021-22 Budget. For the WEM, AEMO also utilises its WA Electricity Consultative Forum to provide participants with visibility of AEMO expenditure.

## 2.2 Revenue and Expenditure

Table 2 Profit and Loss statement 2021-22

	Budget 2020-21 \$'000	Budget 2021-22 \$'000	Variance	
			\$'000	%
Fees and tariffs	31,726	30,831	(895)	-3%
Other Revenue	0	0	0	0%
<b>Total Revenue</b>	<b>31,726</b>	<b>30,831</b>	<b>(895)</b>	<b>-3%</b>
Labour and Contractors	17,058	18,294	1,236	7%
Consulting	2,126	1,411	(715)	-34%
Fees - Agency, Licence & Audit	326	231	(95)	-29%
IT & Telecommunication	2,953	2,244	(709)	-24%
Occupancy	1,564	1,511	(53)	-3%
Other Expenses	1,805	1,399	(406)	-22%
Depreciation & Amortisation	7,932	10,721	2,789	35%
<b>Total Expenditure</b>	<b>33,764</b>	<b>35,812</b>	<b>2,048</b>	<b>6%</b>
<b>Surplus/(Deficit)</b>	<b>(2,038)</b>	<b>(4,982)</b>	<b>(2,943)</b>	
Brought Forward Surplus/(Deficit)	5,122	6,603	1,481	
<b>Accumulated Surplus/(Deficit)</b>	<b>3,084</b>	<b>1,621</b>	<b>(1,462)</b>	

### Key points for 2021-22 profit and loss

Total expenditure is expected to be \$2.0m or 6% higher in 2021-22 due to:

- Higher labour and contractor costs due to wage escalation aligned with AEMO's Enterprise Agreement and additional roles required to support activities arising from the WEM Reform program.

- Higher depreciation and amortisation as a result of budgeted Capital projects completed in 2020-21 or to be completed in 2021-22 financial year, including the:
  - transfer of IT operations from Western Power.
  - implementation of rule changes.
  - replacement of legacy systems.
  - WEM Reform program and DER Roadmap activities.

These higher operating costs are partially offset by:

- Lower consultancy expenditure reflecting the cessation of the service level agreement with Western Power for the provision of system management services.
- Lower IT & telecommunication due to the benefit of AEMO's sourcing activities.

The 2020-21 \$6.6m brought forward surplus into 2021-22 is higher than budgeted in 2020-21, reflecting lower depreciation and amortisation resulting from some projects ending later than previously budgeted as well as management action to reduce operating costs in response to the COVID-19 pandemic.

## 2.3 WEM energy consumption

WEM energy consumption is estimated to decline by 2.9% in 2021-22 as compared to the 2020-21 budget estimate, largely due to the combined impacts of continued uptake of rooftop PV and lower business sector demand.

## 2.4 WEM Fees

AEMO's Western Australian WEM operations annual revenue requirement, as reflected in its budget, is established to recover operating expenditure for the electricity markets it operates and the recovery of other services consistent with the WEM Rules.

For 2021-22, AEMO is keeping the WEM fee flat by applying a portion of the 2020-21 forecast surplus against the increase in budget operating expenditure and the impact of the lower energy consumption. Further, a residual forecast surplus will reduce future price shock as the WEM fee will need to increase in future years as WEM Reform and DER Roadmap projects are capitalised - and to compensate for forecast ongoing reduction in energy consumption.

<b>Purpose of this function</b>	<ul style="list-style-type: none"> <li>• <b>Power system security and reliability.</b></li> <li>• <b>Market operations and systems.</b></li> <li>• <b>Wholesale metering, settlements and prudential supervision.</b></li> <li>• <b>Preparing for and implementing WA Government's WEM and Constrained Access Reforms.</b></li> <li>• <b>Longer-term energy forecasting and planning services (for the South West Interconnected System of Western Australia).</b></li> </ul>
<b>Revenue Requirement and Fees</b>	<p>The current WEM fee is \$0.894/MWh. This fee is to remain unchanged at \$0.894/MWh in 2021-22.</p> <p>The decrease in the WEM Revenue Requirement of \$0.9m largely reflects the net of:</p> <ul style="list-style-type: none"> <li>• a \$2.9m return of over recovered funds, partially offset by</li> <li>• increased operating expenditure in the 2021-22 budget of \$2.0m, consisting of depreciation &amp; amortisation (\$2.8m), net labour and consulting (\$0.5m), partially offset by lower IT &amp; telecommunications (\$0.7m) and other expenses (\$0.6m).</li> </ul>
<b>Other notes</b>	<p>The current three-year ERA determination on <a href="#">AEMO's allowable revenue and capital expenditure</a> covers the period from 1 July 2019 to 30 June 2022. The 2021-22 fee outlined below is less than that approved in the ERA determination.</p>

Table 3 **WA WEM revenue requirement and fees**

	Budget 2020-21	Budget 2021-22	Variance (\$)	Variance %
Revenue Requirement (\$m)	31.7	30.8	-0.9	-2.8%
Energy consumption (GWh)	17,589	17,078	-511	-2.9%
<b>WEM Fees</b>				
WEM Market Operator fee (\$/MWh)	0.380	0.380	-	0.0%
WEM System Management fee (\$/MWh)	0.514	0.514	0.000	0.0%
WEM fee (\$/MWh)	0.894	0.894	0.000	0.0%
WEM fee (indicative benchmark) * (\$/MWh)	1.788	1.788	0.000	0.0%

\* The fee listed above is a benchmark fee calculated by dividing the total cost of the WEM functions by the total forecast consumption. The actual fee charged to both Market Customers and Generators is \$0.380/MWh and 0.514/MWh for the Market Operations and System Management functions respectively.

# 3. Economic Regulation Authority (ERA)

<b>Purpose of this function</b>	<b>To undertake economic regulation and price setting, licencing and compliance monitoring for the Western Australian Electricity and Gas markets.</b>
<b>Revenue Requirement and Fees</b>	AEMO is required to recover the funding for the ERA from WEM market customers and generators and gas shippers (i.e. pass through recovery). Total WEM revenue requirement budgeted from the ERA in 2021-22 is \$6.73m (9% increase) (2020-21: \$6.18m).  The WEM ERA fee is \$0.195 per MWh in 2021-22 (12% increase).
<b>Other notes</b>	For any questions on the ERA budget in 2021-22, contact Pam Herbener, Director, Corporate Services at <a href="mailto:pam.herbener@erawa.com.au">pam.herbener@erawa.com.au</a>

Table 4 ERA revenue requirements

ERA revenue requirement	Actual 2020-21	Budget 2021-22
WEM regulator fee (\$'000)	4,287	6,822
Rule change panel (\$'000)	1,888	(89)
<b>Total ERA revenue requirement</b>	<b>6,175</b>	<b>6,733</b> 9%

Table 5 ERA WEM fee

ERA WEM fee	Actual 2020-21	Budget 2021-22
ERA WEM fee (\$/MWh)	0.174	0.195 12%

# 4. Energy Policy WA (EPWA)

<b>Purpose of this function</b>	<b>To undertake policy, market development, strategic planning and overall coordination for the Western Australian Electricity and Gas Markets.</b>
<b>Revenue Requirement and Fees</b>	AEMO is required to recover the funding for the EPWA from WEM market customers and generators and gas shippers (i.e. pass through recovery), commencing from 1 July 2021. Total WEM revenue requirement budgeted from the EPWA in 2021-22 is \$2.57m.  The WEM EPWA fee is \$0.075 per MWh.
<b>Other notes</b>	For any questions on the EPWA budget in 2021-22, contact Nerea Ugarte, Director, Business Support Services at <a href="mailto:nerea.ugarte@energy.wa.gov.au">nerea.ugarte@energy.wa.gov.au</a>

Table 6 EPWA revenue requirements

EPWA revenue requirement	Budget 2021-22
WEM Coordinator (\$'000)	1,820
Whole of System Plan (\$'000)	750
<b>Total EPWA revenue requirement</b>	<b>2,570</b>

Table 7 EPWA WEM fee

EPWA WEM fee	Budget 2021-22
EPWA Coordinator Fee (\$/MWh)	0.075

# Appendix A. Fee schedules

Table 8 Fee schedule of new WA WEM registrations

Application type	2021-22 \$
Rule Participant Registration Application Fee	2,400
Facility Registration Application Fee	4,400
Facility Transfer Application Fee	2,400
Conditional Certification of Reserved Capacity	1,199
Resubmission - Application for Early Certified Reserved Capacity	10,991
Consumption Deviation Application Reassessment Application Fee for Non-Temperature Dependent Loads and for Relevant Demand (Clause 4.26.2CC and 4.28.9B of the WEM Rules)	530

Note: Rule Participant De-registration and Facility De-registration will remain at zero.

# Symbols and abbreviations

<b>Term</b>	<b>Definition</b>
<b>AEMO</b>	Australian Energy Market Operator
<b>ERA</b>	Economic Regulation Authority
<b>EPWA</b>	Energy Policy WA
<b>MWh</b>	Megawatt hour
<b>WA</b>	Western Australia
<b>WEM</b>	Wholesale Electricity Market