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Energy Policy WA
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Cost Allocation Review

The Australian Energy Council (the "**AEC**") welcomes the opportunity to make a submission on the Cost Allocation Review consultation paper ("**Consultation Paper**")[1] published by Energy Policy WA ("**EPWA**").

The AEC is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. Our members collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to millions of homes and businesses, and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 percent emissions reduction target by 2035, and is part of the Australian Climate Roundtable promoting climate ambition.

The AEC makes the following comments in relation to the Consultation Paper.

Proposal 1 – Market Fees

The Consultation Paper considers three Market Fees cost recovery methods and ultimately proposes that the current method for allocating market services costs to Market Participants is retained. The Consultation Paper states:

> *"Changing the Market Fee allocation method is a low priority relative to other current reform initiatives, including those required to decarbonise the South West Interconnected System (SWIS) and maintain system reliability. While changing the method to allocate Market Fees may provide for a more equitable allocation of market service costs, it would not increase the affordability, reliability, safety or security of supply and would provide no major identifiable benefit to Market Participants or end customers."*[2]

The AEC agrees with this. Because specific benefits from changing the cost recovery method cannot be quantified, the AEC supports retaining the current method for allocating market services costs to Market Participants.

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[1] See Cost Allocation Review consultation paper
[2] See p10, Cost Allocation Review consultation paper

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The Consultation Paper also contemplates how battery storage facilities, which both withdraws and injects energy, should be charged Market Fees. The Consultation Papers says, “to avoid “double counting” of Market Fees, storage facilities should simply be treated as a Market Generator (now termed a Market Participant in the WEM) and its recharge energy ignored for the purposes of Market Fee allocation.”[3]

The AEC supports this position and agrees it is important that battery storage facilities are not double-charged.

Proposal 2 – Regulation Raise and Lower

The Consultation Paper identifies four methods for allocating frequency control costs in the WEM to better align with the causer-pays principle and provide more consistency with Wholesale Market Objectives. The Consultation Paper proposes to:

- *“Implement the WEM Deviation Method to allocate Frequency Regulation costs in 2024/25, following the implementation of the new WEM arrangements on 1 October 2023, subject to a cost/benefit assessment.*
- *Reassess adoption of the new NEM Causer-Pays Method to allocate Frequency Regulation costs in 2027, for potential implementation in 2028/29.”*[4]

The AEC considers that:

1. EPWA should avoid adopting an approach that imposes additional costs on renewable projects. The Economic Regulation Authority’s *Triennial review of effectiveness of the WEM Discussion Paper* found that “existing price signals do not provide an adequate commercial justification for investing in the new, low-emission generation and storage that would meet the WEM Objectives.”[5] Any additional costs allocated to renewable facilities will exacerbate the revenue sufficiency problem and discourage new investment.

2. Payments from large-scale renewable projects should be proportional to the regulation costs they cause and those caused by rooftop PV. The ERA acknowledges that prices in the WEM are not high enough to support revenue sufficiency for wind and solar[6] and large-scale renewable projects should not be covering the costs of other intermittent generation, such as rooftop PV.

3. An assessment of the NEM Causer-Pays Method should not be locked in for 2027. Any review of the NEM Causer-Pays Method will divert the limited resources of EPWA, AEMO and Market Participants away from addressing more pressing challenges, such as the capacity shortfall, the lack of revenue adequacy, and the need for network capacity. Shifting from the WEM Deviation Method to the NEM Causer-Pays Method within two years will result in significant implementation costs and the AEC suggests that a review only takes place if there is a pressing need.

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[3] See p27, Cost Allocation Review consultation paper
[4] See p46, Cost Allocation Review consultation paper
[5] See p2, Triennial review of the effectiveness of the Wholesale Electricity Market 2022 Discussion paper
[6] See p13 and 18, Triennial review of the effectiveness of the Wholesale Electricity Market 2022: Discussion paper

Conclusion

The AEC appreciates this opportunity to provide feedback on the Consultation Paper and encourages EPWA to consider the issues raised above.

Please do not hesitate to contact Graham Pearson, Western Australia Policy Manager by email on graham.pearson@energycouncil.com.au or by telephone on 0466 631 776 should you wish to discuss this further.

Yours sincerely,

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