



Terms of Reference

Cost Allocation Review Working Group

14 December 2021

1. Background

The Coordinator of Energy (**Coordinator**) has commenced a review of the allocation of Market Fees and Essential System Services (**ESS**) costs to Market Participants (**Cost Allocation Review**) under clause 2.2D.1 of the Wholesale Electricity Market (**WEM**) Rules. Clause 2.2D.1(h) confers the function on the Coordinator to consider and, in consultation with the Market Advisory Committee (**MAC**), progress the evolution and development of the WEM and the WEM Rules.

Energy Policy WA developed a Scope of Work for the Cost Allocation Review in consultation with the MAC. The Scope of Work is available on the Coordinator's Website at: <https://www.wa.gov.au/government/publications/cost-allocation-review-2022-scope-of-works>. The Scope of Work for the Cost Allocation Review includes:

- objectives and guiding principles for the review;
- issues to be considered;
- stakeholder engagement; and
- the project schedule.

The MAC has established the Cost Allocation Review Working Group under clause 2.3.17(a) of the WEM Rules to assist the Coordinator with the Cost Allocation Review.

2. Scope of the Working Group

The Cost Allocation Review Working Group has been established to provide expert advice and analysis on all aspects of the allocation of Market Fees and ESS costs identified in the Scope of Work, including:

- identification of issues with the current approach to allocation of Market Fees and ESS costs and options to address these issues;
- application of the causer pays principle to Market Fees and ESS costs;
- review of Energy Policy WA's analysis underpinning the Cost Allocation Review; and
- support for the high-level and detailed design for changes to the approach to allocate Market Fees and ESS costs.

3. Membership

Energy Policy WA will provide the Chair of the Cost Allocation Review Working Group.

Any Market Participant or other interested stakeholder may nominate a person for membership on the Cost Allocation Review Working Group for approval by the Chair.

All members of the Cost Allocation Review Working Group are required to contribute their time and resources to complete specific analysis and other tasks as requested by the Chair.

There are no restrictions on the number of Cost Allocation Review Working Group members. However, the Chair of the Cost Allocation Review Working Group may only approve one member from each organisation.

The Chair of the Cost Allocation Review Working Group will have discretion to allow additional subject matter experts or consultants to attend specific meetings or workshops, either generally or on a case-by-case basis.

Energy Policy WA will provide administrative support to the Cost Allocation Review Working Group.

4. Documentation

Energy Policy WA will establish a Cost Allocation Review Working Group webpage on its website. Any discussion papers, meeting papers and meeting minutes will be posted to this page.

Market Participants and other stakeholders may register with Energy Policy WA to receive email communications regarding the Cost Allocation Review Working Group, including notices of publication of papers on the Cost Allocation Review Working Group webpage.

5. Responsibilities of Meeting Attendees

A person attending a Cost Allocation Review Working Group meeting is expected to:

- have suitable knowledge and experience to engage in and contribute to discussions relevant to the specific meeting;
- prepare for the meeting, including by reading any meeting papers distributed before the meeting;
- participate as a general industry representative rather than representing their company's interests; and
- complete actions requested by the Chair, which may include undertaking of analysis or preparation of papers for discussion by the Working Group.

6. Administration

Energy Policy WA will provide secretariat support for the Cost Allocation Review Working Group.

Energy Policy WA will ensure contact details for the Cost Allocation Review Working Group are maintained on the Cost Allocation Review Working Group webpage.

The Chair of the Cost Allocation Review Working Group will convene meetings of the working group in accordance with the timelines in the Scope of Work for the Cost Allocation Review.

Energy Policy WA will prepare and distribute all meeting correspondence to the Cost Allocation Review Working Group via email. Energy Policy WA will endeavour to provide the following documentation by email to the Cost Allocation Review Working Group members:

- notices of meetings, agendas, and relevant meeting papers at least 5 Business Days prior to the meeting; and

- key outcomes and actions emerging from each meeting no more than 5 Business Days following the meeting.

All meeting documentation will be published on Energy Policy WA's website as soon as practicable after it has been sent to the Cost Allocation Review Working Group members.

Meetings will generally be held online via TEAMS but may sometimes be held in person. Meeting minutes are to record meeting attendance, main outcomes of discussion, agreed recommendations to the MAC and action items. Meetings will be recorded to assist with development of minutes.

7. Reporting Arrangements

The Cost Allocation Review Working Group Chair must provide a report to the MAC on the Cost Allocation Review Working Group's activities at each MAC meeting. The reports must include, at a minimum:

- details of all Cost Allocation Review Working Group meetings since the last report to the MAC, including the date of the meeting and the key outputs of each meeting;
- the date of the next meeting and the issues to be considered (if known); and
- any recommendations from the Working Group to the MAC.

8. Projected Timeline

Tasks/Milestones	Timing
Consult with the MAC on the Scope of Work for the review.	December 2021
Establish Working Group.	January 2022
Engage consultant(s) to assist with the review.	January-March 2022
Initial Working Group meeting	April 2022
Step 1 – Policy Assessment	
(a) Literature Review of the methodologies to allocate Market Fees and ESS costs in other jurisdictions.	April-June 2022
(b) In consultation with the Working Group, assess whether the current allocation method for the Market Fees and for the costs for each of the ESS are aligned with the causer-pays principle and, if not, whether they should be.	May-June 2022
Step 2 – Practicality Assessment	
(c) In consultation with the Working Group, for the fees and costs that are not aligned with the causer-pays principle: <ul style="list-style-type: none"> • identify the options that can be practically applied in the WEM to allocate fees and each cost; • assess each option against the guiding principles; 	July-August 2022

Tasks/Milestones	Timing
<ul style="list-style-type: none"> model the impact on the options on Market Participants; and recommend a preferred option for each fees and cost. 	
Step 3 – Methodology Development	
(d) Develop the details of the cost allocation methodologies, in consultation with the Working Group.	September - October 2022
(e) Develop and publish a consultation paper on the design for the allocation methodologies and seek stakeholder comments.	November-January 2023
(f) Develop and publish an information paper on the detailed design for the allocation methodologies.	March 2023
Step 4 – Formal Rule Change	
(g) Develop one or more Rule Change Proposals for consideration by MAC, and approval by the Coordinator and Minister.	April 2023
(h) Commencement rule changes.	Depending on data availability and fit with the ETS reforms.

9. Contact Details

Rule Participants and other stakeholders may contact the Cost Allocation Review Working Group Secretariat at energymarkets@energy.wa.gov.au. Documentation and information related to the Cost Allocation Review Working Group will be published on Energy Policy WA's website.