

FINAL PILBARA ISOCO MID-YEAR REVISED BUDGET 2023-24

1. Introduction and Overview

The Pilbara ISOC_o (ISO) was registered on 7 June 2021 as a not-for-profit company limited by guarantee to perform the role of the independent system operator under the Pilbara electricity regime. Its current members are the three main network service providers in the North-West Interconnected System: Horizon Power, APA and Rio Tinto.

The ISO receives no ongoing Government funding but recovers its operating and capital expenses through fees levied on participants. Each fee is limited to recovering the costs of providing the service.

The ISO is an independent public company and its budget, including the mid-year review, is approved by the ISO Board. The ISO Board consists of the Independent Chair, Government Appointed Director and Member Directors from APA, Horizon Power and Rio Tinto.

In accordance with the Rules, the ISO is required to develop and manage its budget to meet the budget objective, which includes:

- fees are consistent with the Pilbara Electricity Objective; and
- the ISO fees include only costs which would be incurred by a prudent person performing ISO functions under Part 8A of the Act, acting efficiently, in accordance with good electricity industry practice (GEIP), and seeking to achieve the lowest practicably sustainable cost of performing those functions, while effectively promoting the Pilbara electricity objective; and
- the secondary objective, which is to achieve the primary objective as simply and inexpensively as possible, while ensuring that all affected stakeholders (including consumers to whom the costs may be passed on) have a reasonable opportunity to be heard.

This document outlines the spending changes from the 2023-24 Pilbara ISOC_o approved budget. These spending changes are necessary to support the continued development and implementation of services across the ISO's functions following the commencement of the Rules from 1 July 2023.

The key functions of the ISO are outlined in the Chapter 2 of the Rules and include:

- (a) Maintain and improve system security
- (b) Administer exemptions
- (c) Develop and administer procedures
- (d) Administer protocol framework
- (e) Manage registration and publish information
- (f) Manage visibility regime
- (g) Manage the power system model

- (h) Undertake budgeting
- (i) Determine loss factors
- (j) Oversee generation adequacy regime
- (k) Undertake system coordination
- (l) Through the ISO control desk participate in system operations
- (m) Undertake post-incident investigations
- (n) Procure essential system services
- (o) Undertake energy balancing and settlement
- (p) Develop and administer constraint rules
- (q) Provide access and connection services
- (r) Undertake network coordination and planning
- (s) Publish information and undertake pre-disclosure
- (t) Undertake compliance monitoring
- (u) Develop rule change and procedure change proposals

2. Consultation

The process and timing for the ISO mid-year review is detailed in subchapter 4.5 of the Rules and the Interim Budget and Cost Management Procedure. The ISO followed the standard consultation process in accordance with Appendix 1 of the Rules, seeking public comment from 15 December 2023 to 5 January 2024.

The ISO received two submissions during this period, from APA and Horizon Power. The substantive issues raised in the submissions and ISO's response is provided below.

Process and timing

Both submissions commented on the public submission period being from 15 December 2023 to 5 January 2024.

The ISO acknowledges that some stakeholder personnel may be on leave during this time and that consultation over this period is not ideal, however on this occasion it was justified given the comparative newness of the regulatory regime and the desirability of the ISO to be best positioned to undertake its obligations under the Rules and to respond to industry demand for its services. As a consequence, the ISO did not grant an extension of time, but notes that the ISO has discretion to consider late submissions in accordance with A1.6 of the Rules.

Increased costs

The submissions both commented on the quantum of the cost increases and sought additional information on the breakdown of increased costs.

The ISO provided a cost breakdown in Section 5 of the published Draft Mid-year Review (Section 4 in this final revised Budget). The breakdown provided attempts to balance the confidentiality and bargaining position of the ISO in negotiating with service providers and prospective employees with the desire for transparency.¹ It should be noted that the ISO Board is provided with a full breakdown of costs and role descriptions and alignment with the budget objective in order to inform its decision making.

At the time of approving the 2023-24 Budget, the ISO Board recognised that it was likely that additional resources to those approved would be needed, but that it was too early to be confident what those resources would be. The Board therefore resolved that the ISO operate with minimal additional resources for six months, using this time to assess additional resourcing requirements to meet upcoming workload and bring a proposal for consideration through the mid-year review process. This forms the basis of the mid-year review adjustment in respect of additional resources.

The revised costs are based on the estimated costs of delivering the expected future demand for services through a mix of internal and external resources. The

¹ Note paragraphs 2.2.2 and 2.2.3 of the Interim Budget and Cost Management Procedure V2.0.

ISO has estimated costs through industry salary standards and cost estimates from consultants.

Further information technical investigations and reviews

The additional costs related to engineering and technical services consultancy costs primarily relate to a repeat of constraint studies and essential system services studies that are required following updates by NSPs to the whole of system model as well as system strength studies to better understand the impact of renewable penetration on the system.

Further information regulatory and technical labour costs

In its submission, Horizon Power acknowledged that the ISO must be adequately supported to carry out its functions under the Rules, and requested further information on the roles of Senior Engineer and the Regulatory and Business Support Officer. This information has been provided in response to Horizon Power's submissions and published separately.

The ISO is very aware that the Pilbara is transitioning to a low carbon future which will see rapid growth in generation capacity, transmission infrastructure and reliance on intermittent renewable energy. The State Government recently published its Sectorial emission reduction strategy for Western Australia² which outlines the projected growth in new capacity and transmission infrastructure over the next 25 years in the Pilbara to meet net zero emissions. The ISO has a significant and growing role in maintaining and improving system security in the NWIS. It is in the best interest of all stakeholders that the ISO is adequately resourced now and into the future to perform its functions and has applied that consideration in its resourcing budget.

Cost of consultants

Both submissions noted that the Draft Mid-year Budget Review 2023-24 stated that the ISO plans to transition from the use of consultants for core business activities and transfer these responsibilities to ISO employees.

The ISO will continue to transition outsourced services to ISO personnel where it is prudent to do so. Consultants will continue to be used for specialist and bespoke work outside of the current capability and capacity of the ISO, such as the preparation of the ACCC authorisation and an obligations register. These additional costs are included in the revised funding for legal and professional fees included in the mid-year review adjustment.

Stakeholder responses

The ISO has provided a response to the specific issues contained within each of the stakeholder submissions. The submissions and responses can be found on the ISO's website.

² Sectorial emissions reduction strategy for Western Australia – Pathways and priority action for the state's transition to net zero emissions [Sectorial emissions reduction strategy for Western Australia \(www.wa.gov.au\)](http://www.wa.gov.au)

3. Budget and Fees

The proposed 2023-24 Revised Budget represents the expected expenditure for each funding category.

Given the difficulty in accurately predicting expenditure, an operating contingency is included within the Other Expenses category.

The Pilbara ISOCo only invoices fees on costs incurred. Underspends and/or contingency items will not be recovered from NSPs if they are not incurred.

4. Financials

PILBARA ISOCO BUDGET			
	Budget 23-24	Spending Change	Revised Budget 23-24
Operating Expenses (Regulatory & Technical)			
GOVERNMENT SERVICES	327,273	-	327,273
LEGAL AND PROFESSIONAL FEES			
Legal	230,000	300,000	530,000
Professional Fees	60,000	-	60,000
SYSTEM OPERATIONS			
ISO Control Desk	1,000,000	-	1,000,000
Power System Software	-	45,000	45,000
ENGINEERING AND TECHNICAL SERVICES			
Access and Connection Costs	300,000	-	300,000
Engineering Consultancy	305,000	60,000	365,000
Technical Investigations and Reviews	180,000	280,000	460,000
REGULATORY & TECHNICAL ISO LABOUR COSTS	700,000	225,000	925,000
Operating Expenses (Administration)			
ACCOUNTING AND AUDIT SERVICES	65,000	30,000	95,000
DIRECTOR FEES	150,000	-	150,000
TRAINING AND DEVELOPMENT	40,000	-	40,000
INFORMATION AND COMMUNICATION	30,000	-	30,000
OTHER EXPENSES	450,000	(100,000)	350,000
Total Operating Expenses	3,837,273	840,000	4,677,273

PROPOSED FEES & OTHER RECOVERABLE EXPENSES		
	Budget 23-24	Revised Budget 23-24
Total Operating Expenses	3,837,273	4,677,273
ISO Fees	3,210,000	4,050,000
Coordinator Fees	309,357	309,357
Authority Fees	17,916	17,916
Access and Connection Costs	300,000	300,000

4.1 Significant Spending Changes

Legal and Professional Fees (\$300,000)

The Company is projecting additional costs of \$300,000 in 2023-24 for legal and professional fees. These costs relate to:

- Revised scope and preparation of the company's submission to the Australian Competition and Consumer Commission (ACCC) seeking authorisation³ of certain functions.
- Preparation of an obligations register to assist the company in meeting its compliance obligations under the Pilbara Networks Rules.
- Preparation of internal company policies to reflect the size and growth of the company.

System Operations (\$45,000)

Power Factory Licence Base Package with additional features to meet ISOCO's functions including:

- Scripting to determine and review loss factors;
- Stability analysis functions (RMS) for access and connection studies;
- System coordination including outage planning;
- Post incident investigations; and
- Harmonics to develop frequency sweeps for access and connection studies.

Engineering and Technical Services (\$340,000)

Engineering Consultancy (\$60,000)

The Company is projecting an additional \$60,000 for the remainder of the financial year to provide modelling advice and guidance to NSPs and to extend the Pilbara ISCO technical secondee to assist in the transfer of skill to the proposed new permanent Pilbara ISOCO employees.

Technical Investigations and Reviews (\$280,000)

The Company is projecting additional costs of \$280,000 following revised scope of study requirements relating to constraints, network planning, essential system services.

Regulatory and Technical ISO Labour Costs (\$225,000)

Following the engagement of principal technical and regulatory leads, the commencement of Pilbara Networks Rules on 1 July 2023 and the finalisation of the following procedures:

- Notices and Communications Procedure
- Registration and Standing Data Procedure
- Energy Balancing and Settlement Procedure
- Cyber Security Procedure
- Budget and Cost Management Procedure

³ Note existing competition authorisation pursuant to S120ZF EI Act

- Access and Connection Procedure
- Essential System Services Procedure
- Modelling Procedure
- Protocol Framework Procedure
- Visibility Procedure
- Compliance Procedure,

the ISO has identified an immediate need for an additional four full time employees to assist in meeting the company's functions under part 8A of the *Electricity Industry Act 2004*, acting efficiently, in accordance with Good Engineering Industry Practice and to achieve the lowest practicable sustainable cost in accordance Rule 122 of the Pilbara Networks Rules.

The additional employees would bring the total number of permanent employees to seven.

1 X Senior Engineer (5-10 years' experience)

Key tasks are to assist with management of Access and Connection process, manage the NWIS PowerFactory model, manage consultants with power system studies, assist with PNR and HTR exemptions, assist with compliance monitoring and post incident reviews and investigations.

2 X Graduate Engineer (0-5 years' experience)

Key tasks include performing basic PowerFactory modelling for planned outages to inform ISO Control Desk, prepare papers and chair fortnightly system co-ordination meetings, undertake post incident reviews and investigations, informal discussions about outages (planned and unplanned), manage contract management of delegation of ISO Control Desk.

1 X Regulatory and Business Support Officer (0-5 years' experience)

Key tasks to include providing regulatory and business support in progressing rules and procedure changes, electricity sector research and data collection, EBAS quality checks, website and communications updates and procurement and finance activities.

4.2 Administrative Operating Expenses

Accounting and Audit Services (\$30,000)

An additional \$30,000 to meet the company's internal financial reporting requirements.

Other Expenses (-\$100,000)

Contingency has been revised downward by \$100,000 to reflect that the Company is tracking close to budget for the July to December 2023 period.