

9 December 2020

Ms Kate Ryan
Executive Director
Energy Policy WA

Via email: submissions@energy.wa.gov.au

Level 45
152 St Georges Terrace
Central Park
Perth WA 6000

Postal Address:
PO Box 7096
Cloisters Square
Perth WA 6850

T 08 9469 9800

Dear Ms Ryan

ENERGY SECTOR GOVERNANCE: PROPOSED CHANGES TO THE REGULATORY FRAMEWORK

The Australian Energy Market Operator (AEMO) welcomes the opportunity to provide this submission in response to the *Consultation Paper – Energy Sector Governance: Proposed Changes to the Regulatory Framework* (Consultation Paper) and the accompanying draft amendments to relevant rules and regulations.

The proposed changes to the governance arrangements in the Western Australian (WA) energy sector have the potential to achieve greater efficiency in process and increased coordination of the market policy and development role that the WA Government has played throughout the implementation of its Energy Transformation Strategy.

Transparency

AEMO encourages measures to maximise transparency of rule change prioritisation and decisions, and maintain effective opportunities for stakeholder input. AEMO notes that the proposed changes include measures to strengthen the independence of the Market Advisory Committee (MAC) and Gas Advisory Board (GAB), including through the appointment of independent chairpersons. AEMO encourages the Coordinator, in consultation with the independent MAC and GAB chairpersons, to continue some of the transparency measures that were established by the Rule Change Panel (RCP), such as:

- published key performance indicators for the rule change processes;
- a transparent rule change prioritisation framework; and
- stakeholder satisfaction surveys.

Efficiency

The transfer of rule change functions to the Coordinator provides an opportunity to review the relevant rules and the rule change processes to ensure an appropriate balance is struck between:

- process efficiency, noting the desire to ease the pressure on administration costs across the sector;
- the depth and breadth of assessment of Rule Change Proposals, and;

- the benefits to be realised from the rule change.

AEMO notes that the industry has faced challenges with the timeliness of rule change processes in recent years. The RCP has acknowledged numerous factors that have contributed to these challenges¹, including:

- the requirement for the RCP to respond to all issues raised by stakeholders during consultation on Rule Change Proposals, which can lead to a focus on minutiae;
- delays with AEMO in providing complex technical assessments for some older and larger Rule Change Proposals, which have included requests for AEMO to assess a range of alternative proposals and multiple implementation options associated with a proposal; and
- rule change processes occurring concurrently with WA Government policy development, particularly the Energy Transformation Strategy and the previous Electricity Market Review, which has complicated rule change decision-making and contributed to resource constraints (including at AEMO).

AEMO and the RCP have cooperated to refine the processes for the provision of AEMO support for the rule change function, which have worked well for more recent Rule Change Proposals. AEMO is keen to support the Coordinator and Energy Policy WA (EPWA) as they establish the various operating processes to support the rule change function, including the necessary provision of AEMO advice to aid the assessment of Rule Change Proposals.

Market Surveillance Data Catalogue

Clause 2.16.1 of the Wholesale Electricity Market Rules (WEM Rules) confers a function on AEMO to support the Economic Regulation Authority (ERA) in regard to the ERA's market surveillance and monitoring market effectiveness roles. AEMO currently fulfils its obligations to provide data and analysis to the ERA by:

- providing the ERA with access to AEMO's data warehouse, which includes: the data items in the Market Surveillance Data Catalogue (MSDC) required to be identified under clause 2.16.2 of the WEM Rules, the analysis required to be undertaken by AEMO under clause 2.16.4 of the WEM Rules, and access to the majority of market data sets, including settlement data, in accordance with the classes of confidentiality status outlined in the WEM Rules²; and
- undertaking and presenting analysis in monthly monitoring meetings with the ERA. Specific details of this arrangement were negotiated with the ERA to fulfil AEMO's support function.

¹ Rule Change Panel, 2020, *RCP Support and Rule Change Panel KPIs for 2019/20, Market Advisory Committee 8 September 2020 meeting papers*, p76 ([online](#)).

² Under clause 10.2.2 of the WEM Rules, information or documents in every confidentiality status class may be made available to the ERA.

The proposed expansion of clause 2.16.1 of the WEM Rules, which obliges AEMO to provide similar support to the Coordinator, will require AEMO to:

- provide the MSDC data and analysis to the Coordinator under clause 2.16.5 of the WEM Rules; and
- negotiate some aspects of this analysis and support required by the Coordinator under section 2.16 of the WEM Rules, including any material provided under clause 2.16.2(p) of the WEM Rules and analysis provided under clause 2.16.4(h) of the WEM Rules, in order to provide information that is relevant and necessary and to provide that information in a way that is beneficial and cost effective for both AEMO and the Coordinator.

While there will be some duplication of aspects of AEMO's support function (including monthly meetings and action tracking), AEMO advises that it would be more efficient if the analysis and support requirements of the Coordinator and the ERA could be aligned to the extent practicable. In addition, if there are different data confidentiality requirements for the provision of data to the Coordinator and to the ERA, AEMO notes that this may result in additional implementation effort and cost to Market Participants.

Coordinator Fees

The proposed Amending Rules provide for the ability of the Coordinator to recover fees from both Market Participants in the Wholesale Electricity Market (WEM) and Gas Market Participants under the Gas Services Information Rules (GSI Rules). The proposed rules have aligned this process with the process currently in place for the ERA. AEMO supports this alignment, as it will ensure that settlement processes remain efficient and transparent for all participants.

In the WEM, the Market Participant fee settlement calculations will be amended to include a Coordinator Fee. AEMO will need to make changes to this calculation in the settlement system and have these changes independently certified prior to settlement of Trading Month July 2021. These changes will be assessed and delivered as part of the settlement enhancements project currently underway in AEMO's work program. In relation to fees charged under the GSI Rules, AEMO will need to update the fee calculation tools and have these independently certified prior to the settlement of fees for Q3 2021. These changes are minor and will be delivered as part of business-as-usual processes.

Reviews to be conducted by the Coordinator

Proposed clause 2.16.13A of the WEM Rules confers on the Coordinator the responsibility for the development of the market and monitoring for market design problems or inefficiencies. Proposed clause 2.16.13B(c) of the WEM Rules requires that this role must include monitoring the effectiveness of AEMO in carrying out its functions under the Regulations, the WEM Rules and Market Procedures.

AEMO notes that the Allowable Revenue and Forecast Capital Expenditure for its functions under the WEM Rules and GSI Rules must be approved by the ERA in accordance with those rules.

AEMO is keen to ensure that any recommendations from the Coordinator’s review are within its capacity to implement, recognising that AEMO is a not-for-profit, financially regulated entity. Some recommendations relating to AEMO functions may lead to rule or procedure changes, resulting in new or modified obligations for which AEMO may recover costs under the WEM Rules. However, new or modified obligations may result in AEMO’s previously determined Allowable Revenue and Forecast Capital Expenditure being inadequate, requiring AEMO to submit a revised funding proposal to the ERA. AEMO considers that there is potential for an issue to arise if the views of the Coordinator, AEMO and the ERA are not aligned in relation to the scope of any new or modified obligations. This could materially impact AEMO’s ability to deliver its services and/or functions under the WEM Rules.

Transitional arrangements

Where responsibility for functions transitions from one agency or organisation to another, AEMO considers there may be merit in specifying transitional functions for the agency or organisation that is relinquishing the function to provide support to the agency or organisation that will receive the function. This will support smooth transfers of responsibilities and will remove uncertainty regarding cost recovery and immunities in respect of support provided during the transitional period.

Staging of amendments in relation to Ancillary Service parameters

Section 3.13 of the WEM Rules currently describes the processes for determining parameters for Ancillary Service payments. AEMO assumes that the intention of the draft amendments to section 3.13 is to remove the obligations for AEMO to propose parameter values to the ERA from 1 July 2021, with subsequent changes commencing on 1 October 2022. However, the draft amendments published with the Consultation Paper do not specify which amendments are intended to commence on 1 July 2021 or 1 October 2022. AEMO supports this change as it will ensure efficiency and allow key AEMO resources to remain focused on the delivery of the Energy Transformation Strategy. AEMO has provided some suggestions in Attachment A, about how the proposed amendments can be staged to achieve the assumed policy intention, that EPWA may wish to consider.

If you would like to discuss any matters raised in this submission, please contact Greg Ruthven (08) 9469 9923.

Yours sincerely



Cameron Parrotte
Executive General Manager, Western Australia

Attachments: Drafting suggestions for staging of amendments to section 3.13 of the WEM Rules

ATTACHMENT A: DRAFTING SUGGESTIONS FOR STAGING OF AMENDMENTS TO SECTION 3.13 OF THE WEM RULES

WEM Rules clause(s)	Suggested change(s)
3.13.1(c)	<p>The proposed amendments are as follows:</p> <p>“Cost_LRD, the monthly amount for Load Rejection Reserve Service and System Restart Service, determined in accordance with the process described in clauses 3.13.3B and 3.13.3C; and Dispatch Support Service determined in accordance with clause 3.11.8B”</p> <p>AEMO understands that the proposed changes to clauses 3.13.3B, 3.13.3C and 3.11.8B are scheduled to commence on 1 October 2022. Given this, AEMO suggests that the amendment to clause 3.13.1(c) should also commence on 1 October 2022. At a minimum, AEMO suggests that the reference to Dispatch Support Services should remain until 1 October 2022 to ensure that market settlement still occurs as expected in the event that a Dispatch Support Service contract is signed.</p>
3.13.3A	<p>AEMO suggests that the amendments commencing on 1 July 2021 should remove AEMO’s role in the process of determining Margin_Peak and Margin_Off-Peak, but should retain the principles for determining these parameters until 1 October 2022. This could be achieved by:</p> <ul style="list-style-type: none"> • Removing the following text in paragraph (a): “by 30 November prior to the start of the Financial Year, AEMO must submit a proposal for the Financial Year to the Economic Regulation Authority”; and • Replacing “AEMO” with “the Economic Regulation Authority” in paragraphs (a)(i) and (a)(ii).
3.13.3B	<p>AEMO suggests that the amendments commencing on 1 July 2021 should remove AEMO’s role in the process of determining Cost_LR, but should retain the principles for determining this parameter until 1 October 2022. This could be achieved by removing the following text in paragraph (a): “by 30 November of the year prior to the start of the Review Period, System Management must submit a proposal for the Cost_LR parameter for the Review Period to the Economic Regulation Authority.”</p>

WEM Rules clause(s)	Suggested change(s)
3.13.3C	<p>AEMO suggests that the amendments commencing on 1 July 2021 should remove AEMO's role in the process of revising Cost_LR, but should retain the principles for determining this parameter until 1 October 2022. This could be achieved by:</p> <ul style="list-style-type: none"> • Removing the following text in paragraph (a): “by 30 November of the year prior to the start of the relevant Financial Year, System Management must submit an updated proposal for the Cost_LR parameter to the Economic Regulation Authority”; and • Replacing the remaining reference to “System Management” with “the Economic Regulation Authority”.