

## Wholesale Electricity Market Rule Change Proposal Submission

### RC\_2017\_05 AEMO Role in Market Development

#### Submitted by

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Submissions on Rule Change Proposals can be sent by:

Email to: [rcp.secretariat@rcpwa.com.au](mailto:rcp.secretariat@rcpwa.com.au)

Post to: Rule Change Panel  
Attn: Executive Officer  
C/o Economic Regulation Authority  
PO Box 8469  
PERTH BC WA 6849

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**1. Please provide your views on the proposal, including any objections or suggested revisions.**

AEMO welcomes the opportunity to provide this submission in respect of the Draft Rule Change Report for the proposal to explicitly describe AEMO's role in market development in the Wholesale Electricity Market Rules (Market Rules).

#### **Background**

AEMO is uniquely placed to identify opportunities for improvement in market and system administration due to its role as the independent market and system operator for the South West Interconnected System (SWIS), its corresponding market and system operator functions in eastern Australia and its close engagement with international colleagues through its membership of GO15. Active contribution by AEMO to market development will improve the quality and timeliness of regulatory outcomes and reduce the burden on Market Participants and other agencies. Consequently, the original Rule Change Proposal explained that it is crucial that AEMO should be empowered to contribute to the development of the market and efficiency improvements in market processes, and that it should be able to recover costs associated with these activities.

The Rule Change Proposal provided examples of specific functions in which AEMO's contribution would improve the timeliness and quality of regulatory outcomes, specifically:

- providing information to the Rule Change Panel (RCP) to support its assessment of Rule Change Proposals;
- providing information to the Economic Regulation Authority (ERA) to support reviews that it carries out under the Market Rules; and
- development of Rule Change Proposals.

The proposed drafting did not specify these functions. Rather, it proposed to describe a single function to “promote the development and improve the effectiveness of the operation and administration of the Wholesale Electricity Market, including providing information to the Rule Change Panel and Economic Regulation Authority to support their respective functions”.

The Rule Change Proposal also noted the existing processes that would provide oversight and control over the proposed new function, specifically the Allowable Revenue process, the annual market audit, and the compliance monitoring and reporting by the ERA.

### **The Rule Change Panel's draft decision**

AEMO welcomes the RCP's acknowledgement of the importance of AEMO participating in market development. AEMO notes that this aligns with the experience of other electricity markets, in which it is common for the market operator to contribute to the development of the markets that it operates.

The RCP, in both the Rule Change Notice and the Draft Rule Change Report, raised concern that the potential scope of the function in the proposed drafting was very broad. This view was shared by the majority of submitters.

To address this concern, the RCP's draft decision proposes additional amendments to the proposed Amending Rules.

1. The new function in the rules would be limited to only the example activities that were described in the original Rule Change Proposal, being the provision of information to the RCP and ERA, and the development of Rule Change Proposals.
2. The contributory, rather than leading, role of AEMO in market development would be emphasised by replacing the phrase “promote the development” with “contribute to the development”.
3. AEMO and the ERA would be required to consult with the Market Advisory Committee (MAC) and take into account the advice received, before starting the development of a Rule Change Proposal.

AEMO's views on the amendments to the original proposal are explained below.

### **Explicit listing of example activities**

The activities described in the original Rule Change Proposal relate specifically to processes within the Market Rules, and were put forward as examples rather than as a comprehensive scope of proposed involvement. However, AEMO notes that the Market Rules are only a part of the regulatory framework that applies to the SWIS) and the mechanisms under the Market Rules are only one of a number of ways that policy impacting on the WEM will be determined.

As noted in the Draft Rule Change Report, in its role as market and system operator, AEMO is required to work with government and its agencies, including the Public Utilities Office, to support the development of energy policy and the government's reform agenda.

As a matter of principle, AEMO considers that it should contribute to market development activities and provide input to policy development where these relate to its functions and obligations, irrespective of the regulatory instrument in which the functions and obligations are described. Consequently, it should be empowered and funded for this contribution.

Having considered the additional amendments, AEMO is concerned that the prescription of only the activities described in the Rule Change Proposal could be taken to imply that other legitimate contributions to market and policy development in the WEM are outside of AEMO's functions. As AEMO's WEM activities are funded through the Allowable Revenue process in the Market Rules, there is a risk that AEMO would not receive necessary funding to support the full range of market and policy development processes that affect the WEM.

Since the submission of the Rule Change Proposal, the Minister for Energy has confirmed that a constrained network access model will be implemented in the SWIS, with the existing regulatory framework to be retained. Within this framework, AEMO has functions and obligations under other regulatory instruments including the Technical Rules, the *Electricity Industry (Metering) Code 2012* and the *Electricity Industry (Customer Transfer) Code 2016*.<sup>1</sup>

The Rule Change Proposal explained the benefits of AEMO being able to identify and propose changes to the Market Rules. AEMO considers that these benefits apply equally to all of the instruments that impose functions and obligations on AEMO. Even though AEMO is unable to initiate the formal change process to those instruments, it should still be empowered to identify and articulate opportunities for changes that will serve the long-term interests of consumers through improvements in market efficiency or the management of power system security and reliability. If AEMO was precluded from identifying and articulating such opportunities there is an increased risk they will not be pursued.

Similarly, the Rule Change Proposal explained that the RCP would require information from AEMO to assess impacts on market and power system operation, benefits and costs for the majority of Rule Change Proposals. AEMO considers that this principle applies equally to other regulatory instruments, as well as to broader policy development by the Public Utilities Office.

This Rule Change Proposal was not intended to provide AEMO with the ability or the head of power to lead policy development for the WEM. However, like any agency with knowledge on the matter at hand, or affected stakeholder, AEMO must be able to express its views and provide input into policy and regulatory changes that affect its operations and responsibilities, or about which it has information or experience. AEMO considers that its input in these processes will improve the quality and timeliness of policy and regulatory outcomes in the WEM by allowing relevant information to be assembled and put forward.

To address the risk of AEMO being left without funding to provide legitimate contributions to market and policy development activities, AEMO suggests either:

- removing the prescription of activities in proposed clause 2.1A.2(IA); or
- adding two activities in proposed clause 2.1A.2(IA): "providing information to other parties to support the development of any statute, ordinance, code, regulation or other instrument that may be relevant to the market or the operation of the South West

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<sup>1</sup> The Technical Rules refer to System Management, while the Metering Code refers to the IMO. In each case, the functions and obligations are now conferred on AEMO.

interconnected system”<sup>2</sup>; and “contributing to the development of policy and regulatory outcomes relating to, or impacting upon, the market or the operation of the South West interconnected system”.

### **AEMO’s contributory role in market development**

AEMO is comfortable with the RCP’s replacement of “promote the development” with “contribute to the development” in proposed clause 2.1A.2(IA).

### **Requirement for consultation with the MAC**

AEMO agrees with the RCP that it would be problematic to attempt to prescribe firm boundaries between the market development activities of the PUO, ERA and AEMO.

Given this, AEMO considers that the RCP’s proposal to require consultation with the MAC prior to AEMO or the ERA commencing development of a Rule Change Proposal is a workable approach to manage the risk of overlapping or conflicting work between agencies, without imposing a significant additional burden. AEMO welcomes the RCP’s consideration of the use of email contact with the MAC to satisfy this requirement in the event of more urgent changes to the Market Rules that would be progressed through the Fast Track Rule Change Process.

AEMO has some concerns that the proposed new clauses 2.5.1A and 2.5.1B are open to unintended interpretation, leading to risk of conflicting stakeholder views as to AEMO’s and the ERA’s compliance with these new clauses. AEMO offers the following thoughts and suggestions in respect of the drafting of these clauses.

- “before commencing the development of a Rule Change Proposal”: The point at which the development of the Rule Change Proposal commences is difficult to specify. AEMO observes that some prior analysis will need to be performed in order to inform the consultation with the MAC described in the proposed new clauses 2.5.1A and 2.5.1B. For clarity, AEMO considers the following activities to occur before the development of a Rule Change Proposal commences: issue identification and investigation; identification of options to address and, in some cases, selecting the preferred solution; preliminary discussions with stakeholders; and preparation of consultation materials for the MAC, which may include concept papers. AEMO suggests that the phrase may be clarified by replacing “development” with “preparation”.
- “before ... providing material support or assistance to another party to develop a Rule Change Proposal”: Through its roles as market and system operator, AEMO provides material support and assistance to market participants and stakeholders on a regular basis. Such support includes provision of market data, and education on the design and operation of the WEM. AEMO is concerned that the proposed drafting could be interpreted as requiring it to vet requests for support and assistance to understand whether a Rule Change Proposal may result. AEMO considers that this would be counter-productive, hampering services that it already provides to stakeholders, and contrary to the intent of the proposed drafting.

To clarify this, AEMO suggests replacing this phrase in the proposed new clauses 2.5.1A and 2.5.1B with “before ... materially contributing to the development of a Rule Change Proposal to be proposed by another party”. This new drafting would then need to be reflected elsewhere by replacing “support or assistance” with “contribution” throughout clauses 2.5.1A and 2.5.1B, and by changing the end of the two clauses to

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<sup>2</sup> This proposed drafting draws on similar wording in clauses 1.1.2 and 1.4.1(j) of the Market Rules.

~~“or contribute to the development of a Rule Change Proposal to be proposed by another party provide material support or assistance to another party to develop the Rule Change Proposal.~~

- "must ... take into account any advice, comments or objections provided by any member or observer of the Market Advisory Committee": AEMO observes that this is more prescriptive than similar clauses that describe consideration of the views of the MAC (clauses 2.4.3(d), 2.7.7(d), 2.10.13) and suggests that the drafting could be simplified to “provided by the Market Advisory Committee” without changing the intent.

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**2. Please provide an assessment whether the change will better facilitate the achievement of the Wholesale Market Objectives.**

Subject to addressing the matters raised in this submission, AEMO considers that clearer specification of its roles in development of the market and efficiency improvements in market processes will better achieve Wholesale Market Objectives (a) and (d). The proposed amendments would promote earlier rectification of emergent issues in the market that may be affecting market efficiency, security or reliability.

AEMO considers that the proposed amendments are consistent with the other Wholesale Market Objectives.

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**3. Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.**

AEMO’s views in respect of costs and benefits are unchanged from its original submission.

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**4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.**

Not applicable.

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