

Wholesale Electricity Market Rule Change Proposal Submission

RC_2017_05: AEMO Role in Market Development

Submitted by:

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Date submitted:	1 September 2017

Submissions on Rule Change Proposals can be sent by:

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Post to: Rule Change Panel
Attn: Executive Officer
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PO Box 8469
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1. Please provide your views on the proposal, including any objections or suggested revisions.

Alinta Energy (**Alinta**) welcomes the opportunity to provide a submission to the Rule Change Panel on the *Rule Change Proposal: AEMO Role in Market Development (RC_2017_05)* where the Australian Energy Market Operator (**AEMO**) seeks to clarify its prescribed functions by explicitly describing a function of the AEMO 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”.

Alinta notes that the proposed drafting has been paraphrased from a similar function conferred on AEMO section 49(1)(b) of the National Electricity Law (**NEL**) and adjusted for the Wholesale Electricity Market (**WEM**) context.

Alinta is broadly concerned with the proposal to mirror the NEL given the confusion about AEMO’s role in market development in the National Electricity Market (**NEM**), as identified in the recent Vertigan¹ and Finkel² Reviews. Further, Alinta agrees with the Rule Change Panel’s (**RCP**)

¹ ‘Review of Governance Arrangements for Australian Energy Markets’. Final report: <http://www.coagenergycouncil.gov.au/publications/review-governance-arrangements-australian-energy-markets-final-report>

assessment that “*the potential scope of the new function is very broad. The proposed drafting places no limits on AEMO’s market development role, in particular in relation to the development of Rule Change Proposals, and provides no clarity on the boundaries between AEMO’s market development role and that of other parties such as the Public Utilities Office (PUO)*”.

Alinta considers that it is both desirable to avoid introducing similar uncertainty into the arrangements in the WEM and that it is an opportune time to ensure that there is clarity on the boundaries of each agency’s role. This is particularly since the WEM institutional arrangements have undergone significant reform as part of the Electricity Market Review (EMR), including:

- Establishing the regulatory framework enabling a new RCP to undertake the administration and decision-making functions related to proposed changes to the Wholesale Electricity Market Rules and the Gas Services Information arrangement. This included the Economic Regulation Authority (ERA) providing secretariat support functions to the RCP;
- Transfer of system management functions to the AEMO to improve the coordination of System Management (including generator dispatch) with the commercial outcomes of the WEM;
- Transfer of compliance and enforcement functions for the Wholesale Electricity Market Rules and Gas Services Information Rules from the IMO to the ERA; and
- Transfer of market operation functions from the Independent Market Operator (IMO) to AEMO.

The reforms to the institutional arrangement have been progressively implemented – commencing with the transfer of market operation functions on 30 November 2015 and finishing with the implementation and operationalisation of the Rule Change Panel on 1 April 2017. As such, Alinta considers that it is timely to undertake further work to ensure that the institutional arrangements are operating as efficiently and effectively as they can be.

Further, while the Finkel Review addressed the NEM solely, it did state, “the Western Australian and Northern Territory governments should consider adopting the Panel’s recommendations for their individual electricity systems”³.

To that end, Alinta recommends that consideration should be given to developing Statements of Expectations for the ERA, the PUO and the Rule Change Panel, and a Statement of Role for the AEMO containing a comprehensive set of outcomes-based performance indicators⁴ (Finkel recommendation 7.5).

Recommendation 1: Given the EMR reform to the institutional arrangements is now operational, Alinta considers that it is timely to undertake further work to review these arrangements and ensure:

- That each agency’s role is clear – for both the agency itself and the broader industry;
- There are no conflicts of interest and duplication of functions/costs occurring; and
- Robust energy policy and market development in able to occur in a timely, efficient and appropriate manner going forward.

Specifically, Alinta considers that there needs to be clear delineation between of the roles of the AEMO and the policy-making and regulatory bodies such as PUO and ERA.

² ‘Independent Review into the Future Security of the National Electricity Market’. Final report: <http://www.environment.gov.au/energy/publications/electricity-market-final-report>

³ Page 29, Finkel Review Final Report.

⁴ Recommendation 7.5, Finkel Review.

Recommendation 2: Consideration should be given to developing Statements of Expectations for the ERA, the PUO and the Rule Change Panel, and a Statement of Role for the AEMO containing a comprehensive set of outcomes-based performance indicators.

In its rule change proposal AEMO notes that “Both the Vertigan and Finkel Reviews have acknowledged the strong contribution that AEMO should make to market development activities”.

Alinta considers that this statement does not necessarily reflect the full commentary outlined in the final reports for both the Vertigan and Finkel reviews.

Alinta has extracted the following statements from the final report of the Vertigan Review:

*“...there is room to improve the clarity of AEMO’s role, with particular focus on AEMO’s ‘market development’ role. The Panel therefore recommends that AEMO’s fundamental role be specified in a way which is consistent with it being an independent market and systems operator, and it should only have regulatory and statutory roles which are consistent with this role. The Panel does not intend that AEMO be excluded completely from the policy development process of governments, but rather that the terms of its participation should be more clearly specified and guided”*⁵ [Alinta emphasis added].

*“...the AEMC should be given an unambiguous obligation to prepare advice on strategic direction and a resulting work programme including the status of Australian energy market development, emerging issues and developments, and recommendations on priority matters”*⁶

*“The Panel considers that AEMO should not be specifically tasked with policy or market development roles, and that it should be more clearly focused on developing procedures for the purposes of market operation within the energy market. AEMO’s contribution to more general market development should be through the AEMC’s recommended strategic process”*⁷

“The Panel’s conclusion is that the role of AEMO as the market and systems operator should be aligned with the AEMA and described as:

- *facilitating the operation of markets for energy; and*
- *promoting the reliability and efficient operation of energy systems and markets.*

Adopting this description does not, of itself, resolve the confusion in respect to AEMO’s role in market development given the reference to ‘promoting the development’ of operations in AEMO’s statutory functions.

However, AEMO’s central focus should be on operations and it is entirely appropriate that it have the major role in developing procedures for the purpose of market operation within an established system of trading. AEMO’s involvement in market development outside of this scope should only be through specific commissions initiated by the Council or AEMC or contractual arrangements with other parties.

The Panel wishes to ensure that AEMO continues to provide input into policy processes, given AEMO’s expertise in market and systems operations. The Panel considers that the quality of proposals submitted to the Council will be diminished to the extent that this capability of AEMO is not recognised and accessed. However, the chief vehicle for this input should be the new strategic priorities process that the Panel recommends, which, if it is to be

⁵ Page 35, Vertigan Review Final Report

⁶ Page 77, Vertigan Review Final Report

⁷ Page 9, Vertigan Review Final Report

as credible and influential as intended, requires AEMO's full commitment.⁸ [Alinta emphasis added].

The Finkel Review stated that:

...the Energy Council [should] clarify AEMO's role in relation to market development by issuing AEMO with a 'Statement of Role'. This recommendation should be implemented as a matter of priority. As highlighted by the valuable work being done on power system security by AEMO, the market operator needs to strongly contribute to future market development by the AEMC⁹.

Alinta's conclusions from these statements are that both the Vertigan and Finkel Reviews recognise AEMO's valuable contributions into market development work. However, the reviews considered that this should be constrained to contributing to the issues identified by the AEMC as part of the process for identifying strategic priorities for energy market development.

Alinta considers that AEMO should quite rightly have the ability to provide input into policy and market development processes given its expertise in market and system operations. AEMO should also be able to recover its costs for doing so. In noting this, Alinta considers that the proposed drafting in the rule change proposal is too broad and greater clarity about the boundaries of AEMO's market development role is needed.

Developing an appropriate balance when defining the limits of AEMO's contribution to market development is not easy and a document such as a Statement of Role, as recommended above, will assist. However, a Statement of Role is likely to take some time to be developed, and even if there was such a statement in place, Alinta considers that the proposed drafting is still too ambiguous and broad and therefore recommends that the Market Rules also contain further clarity as to the role AEMO should play in market development, for example:

2.1A.2 The WEM Regulations also provide for the Market Rules to confer additional functions on AEMO. The functions conferred on AEMO are:

...

(I) to support the Economic Regulation Authority in its role of monitoring market effectiveness, including providing any market related information required by the Economic Regulation Authority;

(IA) to promote ~~the development~~ and improve the ~~effectiveness~~ efficient 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; and

(IB) to provide input into market development activities identified by the Rule Change Panel and Economic Regulation Authority, including providing information and analysis to develop solutions, as required; and

Recommendation 3: Alinta recommends that Market Rules contain further clarity as to the role AEMO should play in market development, and has suggested some drafting for the RCP to consider.

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

Wholesale Market Objectives (a) and (d) are:

⁸ Page 82, Vertigan Review Final Report

⁹ Page 164, Finkel Review Final Report

(a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system.

(d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system.

Given the proposed drafting is ambiguous and broad, Alinta cannot categorically state that the rule change proposal, as drafted, would promote economic efficiency or minimize the long term cost of electricity supplied. This is because Alinta cannot be certain that

- There is no duplication of functions/costs occurring; and
- Robust energy policy and market development will occur in a timely, efficient and appropriate manner going forward (i.e. if would not be appropriate for AEMO as the market and system operator to initiate a fundamental review of the underlying structure of the market).

Alinta considers that, if greater clarity into what AEMO's role in market development was included in the proposed drafting, and AEMO was able to appropriately recover its costs for performing such tasks, then it is likely that the rule change proposal would better facilitate the achievement of Wholesale Market Objectives (a) and (d).

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.

Any change to AEMO's functions, and subsequent increases to budget will be funded by Market Participants.

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

N/a
