



30 August 2013

Mr David Swift
Executive General Manager Corporate Development
AEMO
Level 2, 20 Bond Street
SYDNEY NSW 2000
By email: david.swift@aemo.com.au

Dear Mr Swift

NGF Submission to AEMO Governance Review

The National Generators Forum (NGF) is the national industry association representing private and government owned electricity generators. NGF members operate across all states and territories and all generation technologies, including coal-fired plant, gas-fired plant, solar, bio-waste, hydroelectric plant and wind farms.

NGF is pleased to provide some comments on the AEMO Governance Review. Generally we support the views expressed in the paper and we have comments on the following issues:

- Role of AEMO
- Ownership of AEMO
- Working Capital Fund

Role of AEMO

NGF is concerned with the increasing breadth of activities being undertaken by AEMO. We are concerned that this could lead to a lack of focus on the critical task it performs as system and market operator. We understand that AEMO will undertake some of the market development work in relation to Optional Firm Access and other areas. We believe this role as market developer needs careful control.

AEMO is also a TNSP so it is a participant in the market which it operates. It is also a not for profit organisation which appears to conflict with the incentive schemes for TNSPs which use financial incentives to motivate TNSPs. A not for profit is not strongly motivated by financial incentives. The dual role also leads to role confusion in the development of the market. Again, for Optional Firm Access AEMO will be developing a set of initiatives which it is directly affected by as a TNSP.

Ownership of AEMO

A goal of an industry owned market operator is compatible with Government's decreasing ownership of electricity assets, a trend which is still proceeding strongly, if slowly. The original compromise was to provide Governments with comfort that participants would be responsible owners of AEMO.

Now that we are several years down the track, NGF believes that it is an appropriate time to move towards the long term goal and increase the level of participant's ownership.

Consequently, NGF proposes that an appropriate response would be for ownership to move to a 60/40 split for participants/governments. We believe that it is important to maintain movement towards the long term goal and to keep in step with the ownership of the market. There are significant safeguards in the electricity and gas market governance framework so that there is no need for majority Government ownership of AEMO.

The other advantage of such a move is that AEMO would be more clearly seen as a body which is independent of Government. This issue is an important one in relation to confidence in the market and delivering an investment climate which is seen as attractive by investors.

Working Capital Fund

One of the issues canvassed is the option for AEMO to develop a small working capital fund for undertaking small carefully defined activities. AEMO are not proposing to make any changes at this time.

In the light of our comments under the first item of this submission, NGF does not support changes to the current arrangements. We have no objection to a small working capital fund for normal operations if it makes the operation of AEMO more efficient but we are concerned at a fund which is for additional activities, even if they are closely monitored.

Notwithstanding this support, it is important that an appropriate framework be established to ensure market participants are not paying the cost of policy development research or advice – both directly and indirectly. The Australian Governments Cost Recovery Guidelines provides a framework for the application of fees and charges related to the provision of government goods and services (including regulation) to the private and other non-government sectors of the economy.

AEMO's unique knowledge on the operation of the NEM is valuable to the development of public policy and AEMO has undertaken research for other government agencies (SCER advice on Optional Firm Access).

AEMO may consider providing a clear statement, as part of the Annual Report, highlighting that the costs associated with policy research or advice to other government agencies was not at the expense of market participants.

AEMO also needs to be conscious that there is an opportunity cost for market participants when it undertakes policy research or advice. The resources AEMO allocates to such projects are no longer available to progress market development and operational improvements. Finding the appropriate balance is important from the perspective of meeting all of AEMO's shareholder expectations.

Scope of the Governance Review

The NGF would have preferred to see an independent party conduct this governance review. Having AEMO conduct the review effectively determines the scope of the issues considered and the proposed options for change.

If you have any queries on this submission, please contact David Bowker on 0418136493.

Yours sincerely

A handwritten signature in black ink, appearing to read 'TR', with a long horizontal flourish extending to the right.

Tim Reardon
Executive Director