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Stakeholder Relations
Australian Energy Market Operator Limited
Level 22, 530 Collins Street,
Melbourne **Victoria 3000**

Perth:
PO Box 520
Northbridge WA 6865
Tel: 61 8 9228 1930
Fax: 61 8 9228 1932

Melbourne:
Level 8,
10 Queen Street,
Melbourne Vic 3000
Tel: 61 3 9614 8489
Fax: 61 3 9614 3786

Via email: stakeholderrelations@aemo.com.au

Dear Sir or Madame,

RE: Reviewing AEMO's engagement model

We refer to the consultation paper issued by the Australian Energy Market Operator (AEMO) dated July 2020 and entitled Reviewing AEMO's Engagement Model (the **Consultation Paper**) and to the invitation therein to provide a submission regarding the subject matter of the Consultation Paper.

This submission comprises: an outline of Energy Matrix Group Pty Limited's interests in the subject matter of the Consultation Paper; some comments on context regarding the functions and objectives of AEMO; and responses to the specific questions put at section 5.3 of the Consultation Paper

Introduction

Energy Matrix Group Pty Limited (ACN 050 889 604) (**Energy Matrix**) comprises four wholly owned subsidiaries engaged in energy sector consulting and commercial project management, gas supply management, gas trading, gas transportation, gas retailing and equity dealing in gas. Please refer to the structure diagram below, Figure 1.

Energy Matrix group companies have conducted business in the Australian energy sector for more than 25 years. As Project Consultancy Services Pty Limited (**PCS**), Energy Matrix provides strategic advice, commercial project management and contract negotiation support to governments and companies across Australia. Among other roles, PCS assisted the office of the Northern Territory Chief Minister in support of the successful tender for the Northern Gas Pipeline (from Tennant Creek to Mt Isa) and acted as Lead Negotiator for the sale of Power and Water Corporation gas in the south east Australian gas market.

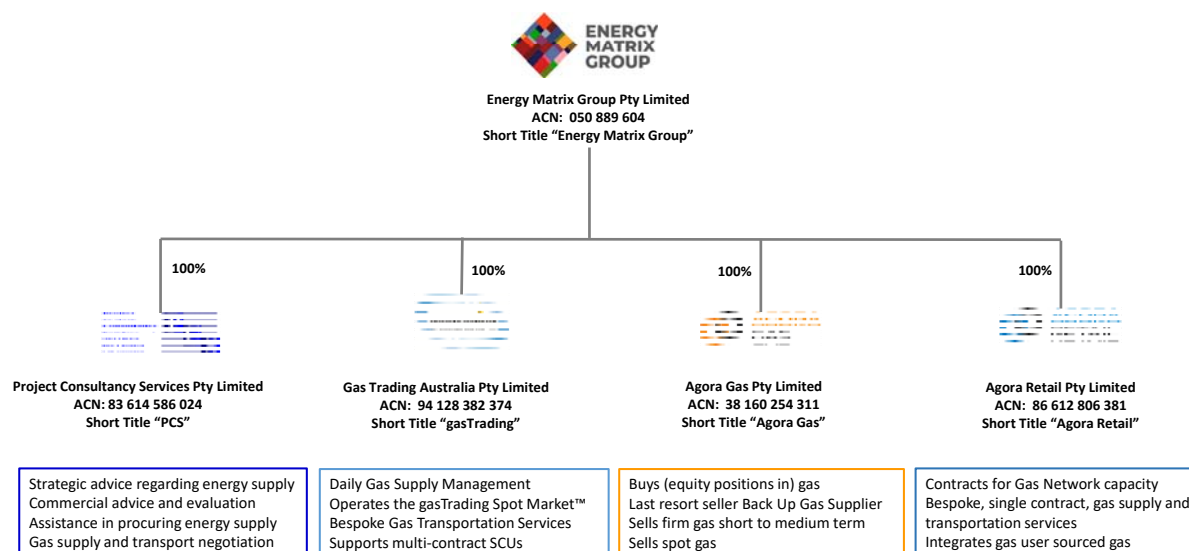
Gas Trading Australia Pty Limited (ACN 128 382 374) (**gasTrading**):

- manages the daily gas supply and transport obligations for over thirty clients/sites located from Kwinana in WA to Mt Isa in QLD;
- has developed and operates the gasTrading Spot Market™ in WA; and
- provides tailored gas transport services to selected clients.



gasTrading also developed, and continues to operate, the “Self Contracting User” market interface, again for selected clients. In this role gasTrading provides the market and related contract interface for its Self-Contracting User in WA. As an integral part of the gasTrading Spot Market™, gasTrading has set the standard for publishing price and trading volume information since mid-2012.

Figure 1 Energy Matrix Structure



Agora Gas Pty Limited (ACN 160 254 311) (**Agora Gas**) is a wholesale gas trader, currently buying and selling gas in Western Australia’s Wholesale Gas Market. In August 2020 Agora Gas has arrangements in place to purchase over 1,100 TJ of Firm and As Available gas and has arrangements in place to sell 875 TJ of that gas in the gasTrading Spot Market™ (600 TJ) and in “Off Market” spot and short term transactions. Agora gas has underwritten the supply of gas to the gasTrading Spot Market™ since 2017, when the last market participant selling “distressed gas”, or low priced “legacy gas”, left the market. This distressed and legacy gas was surplus take or pay gas under contract written before 2008 and gradually left the market as contracts were rolled over.

Agora Retail Pty Limited (ACN 612 806 381) (**Agora Retail**) was established as a gas retail business in Western Australia in 2016. The creation of a gas retail business was leveraged off the experience of key staff members and Energy Matrix group members in the Western Australian gas market. Agora Retail holds a Gas Retail Licence in Victoria.

Overarching Comments

The functions of AEMO are set out in section 91 of the Gas Law and further stated in the Constitution of the company. AEMO was established by the Council of Australian Governments (COAG) on 1 July 2009 and is a not for profit, limited liability company with liability limited by guarantee. AEMO’s shares are held by government and industry, with a membership made up of federal and state government entities and electricity and gas generators, producers, distributors and retailers, and resources businesses.

The primary purpose of AEMO is to manage the National Electricity Market (NEM), the Western Australian Electricity Market (WEM) and certain statutory Australian gas markets. Although AEMO is not a government entity (notwithstanding that some behave as though it were), it has certain statutory functions which are set out at section 91A of the



National Gas (South Australia) Act 2008 and are extended by AEMO's objects as set out in its constitution. Among the functions and objects of AEMO is the performance of consultancy and other services related to the performance of functions and the exercise of powers conferred on it under numerous pieces of legislation and the rules formed pursuant to those statutory functions and any directions or request received from the Ministerial Council on Energy (the MCE).

The characteristic that sets AEMO apart from any other 'representative industry body' is its role in performing functions and exercising powers conferred on it by legislation

A clear understanding of the structure and functions of AEMO is important to the current consultation because it is essential that the Engagement Model adopted takes account of, and is strictly tailored to reflect, the specific functions and objects of the organisation. No attention is paid to such considerations in the Consultation Paper. For example;

- ❑ it is not clear whether it is intended that the proposed new Engagement Model apply to AEMO's narrow role as market operator (or its comparable roles under other legislation) or whether it is to apply in all circumstances including, for example, the delivery of consulting services in response to an MCE request;
- ❑ there is no acknowledgement (in Option 3 of the Consultation Paper for example), of the Competition Law implications of industry leaders meeting to chart the course of the industry in what some may see as a neutral commercial-policy environment.

There is simply no consideration in the Consultation Paper of the scope or reach of the proposed Engagement Model. The tenor of the Consultation Paper might be taken to suggest that the focus of the Discussion Paper is on the mechanics of market operation. However, some aspects of the discussion seem to go well beyond this operations role.

In that context, it would be difficult to see how statements like – “the CEO Roundtable would enable industry and sector leaders to discuss high-level strategic AEMO and market matters early, share information, and align on priorities” - would not raise concerns if made in other contexts. When the propositions set out in the Consultation Paper are evaluated in the narrower context of AEMO's market operation responsibilities there is likely to be less reason for concern. Indeed, it is not entirely clear that the functions or objects of AEMO contemplate it establishing “a place for strategic discussions, prioritisation, and collaboration, rather than decision-making” without a specific MCE request to do so.

Energy Matrix is primarily a gas market participant and its feedback should be interpreted in that context. Electricity markets in general, and the NEM and WEM in particular, throw up many more hot button operational issues than do the various gas markets in Australia. It is appropriate, therefore, that the efficient and transparent resolution of electricity market issues should be the focus of the AEMO Engagement Model reforms. The practices and procedures developed to address gas market operational concerns do not need to be as comprehensive as those developed for electricity markets. Otherwise, there is a real risk that bureaucratic practices and costs appropriate in one context will become a burden to all. In the Consultation Paper AEMO seems to prefer a neat, symmetrical division of market functionality and consistency of focus across all market functions. Energy Matrix questions whether that is, in fact, appropriate across both gas and electricity markets.



What groups do you already participate in?

GRCF, WGCF, WAGCF in the capacity of Retailer and Shipper. Energy Matrix's Executive Director has been a member of the Gas Advisory Board (**GAB**) in Western Australia for several years. Occasionally we attend information sessions on the WEM and NEM but our focus is on gas market forums and workgroups.

Which forums and working groups does your company find useful?

GAB and GRCF mainly and to a lesser degree WGCF and WAGCF. This reflects our involvement in these markets and our geographical market focus.

How do you decide which forums your company will attend?

Besides GAB meetings, attendance is determined primarily on the relevance and appropriateness of the published agendas.

What do you value about them to continue to support them?

The forums enable us to monitor changes to markets and to take in industry's views on proposed changes to improve market functions and outcomes. The forums provide a means to canvas the cost and compliance requirements of proposed changes and the dollar impact of IT projects required to implement such changes (both from an individual company perspective and as a market participant).

What is your overall experience of these groups?

Our experience is that, while these groups assist market participation, they are an inefficient vehicle for doing so. There is scope for improvement. Our concern, given our focus on natural gas, is that in the proposed new Engagement Model formats, we will need to engage extensively with electricity focused fora simply to remain adequately informed about gas. This represents a substantial diversion of senior management resources.

The limitations we have experienced to date include, but are not limited to, the following. These comments are not specific to any particular forum.

- Multiple representatives of organisations with no nominated spokesperson, often with no decision maker in the room.
- Dominance by a few vocal participants.
- Meetings and issues running over the allotted time.
- Disorderly crosstalk during discussions by participants.
- No clear basis for assessing whether an issue is within the terms of reference for the group and a preparedness to engage in less relevant discussions with no mechanism to focus the discussion to the terms of reference or the agenda.
- Tendency to implement short term fixes at the expense of better longer-term market outcomes.
- Dissolution of workgroups who provide specialist advice.
- Lack of independence by the Chair.
- Silence being taken as a form of agreement.



Some of these concerns would be common to many forums and can be largely addressed by good quality meeting procedures and management. Some of these concerns, however, go to the functions and objects of AEMO. How, for example, can a privately-owned organisation, which is tasked by legislation to manage the operation of a “system”, both direct and chair meetings regarding those very systems without a perception of role creep, and worse, conflict or bias. AEMO’s current role may be appropriate for a range of operational matters but the limits need to be strictly established.

What could be improved from that experience?

This is a very broad question and the context and intent is not clear, however, we will attempt to answer it as best we can.

Structural

One fundamental question specifically raised by the Consultation Paper is how AEMO’s Engagement Model should manage the convergence of gas and electricity markets and of production and wholesale and retail markets. The Consultation Paper offers a range of solutions which contemplate rolling all engagement into functional silos. The alternative (or more detailed alternative) would be to recognise the need for engagement to focus on the points of market interface and selectively roll engagement programs together to consider issues where convergence applies and keep some strands of engagement separate where interface or convergence is not an issue. This would allow those participants with limited interest to fully engage in the relevant part of the engagement process, without committing resources to areas with which they are not concerned. In the same model parties with wide spectrum interests can cover the entire field of engagement. This approach would also avoid the inevitable “one size fits all” solution approach to problem solving endemic to a model where all matters under consideration are rolled into a single silo for consideration.

We think a model, based on Option 2, with a single filter (a Steering Committee) at the top, allocating tasks and resources to work silos, would be more productive. Further we would like to see specific recognition that, the tasks are allocated within each silo to targeted engagement forums focused on Retail Operations, Retail Markets, Wholesale Markets and Market Convergent/Interface Issues. The Retail Operations meeting could focus on operational procedures and technical change while the Retail Markets meeting could be more focused on mass customer codes, planning and other matters. This of course may simply be a matter of detail, as little is said in the Consultation Paper of the approach to engagement at each horizontal level within silos.

Finally, we would suggest that a dedicated Western Australian Silo is not necessary and Western Australian engagement can be conducted under the remaining silo banners (Operations, Markets and Planning). We do not advocate an East - West division for gas industry engagement because, if nothing else, highlighting market differences in markets can be an aid to problem solving.

The removal of the delegation of issues to specialist sub-group review has manifested in delays to issue resolution and to partiality in assessments. We would welcome the reintroduction of these sub-groups even if on a temporary-formation basis.

Process/Conduct



In terms of process and conduct of meetings, improvements could be introduced to make the meetings more efficient and improve outcomes. Suggestions include to:

- set and publish clear terms of reference for each consultation group and guidelines for what can and cannot be dealt with by each group;
- appoint independent chairs other than in operationally specific matters;
- adopt best practices for meeting governance;
- ensure time limits are followed;
- consider outsourcing meeting management to independent professional meeting facilitators;
- seek participant input in advance of meetings; and,
- agree appropriate representation of participants.

Should our improvement focus be on greater transparency, flexibility, consistency, problem-solving collaboration, future issues, or anything else?

The focus should be in line with the AEMO mandates and its functions and objects. The focus should include a focus on the efficiency of engagement, the promotion of inclusiveness across industry, consumer groups and stakeholders and in the delivery of achievable and implementable outcomes. For example, a clearly defined mechanism to challenge/test whether a matter should be included on, or remain on, the consultative agenda should be a central pillar of reform.

What are your impressions of the new models?

Our view is that Option 1 will most likely not deliver the benefits sought by AEMO and its stakeholders as the reforms are limited.

We see Option 2 as the most appropriate option, however, as discussed earlier, the core streams may not be appropriate for all market engagements. However, we believe that all work streams should be overseen by a Steering Committee that determines, in the first instance, whether a matter should be considered under this regime and, if so, by which work silo. This Steering Committee should be focused on the functions and objects of AEMO, the Terms of Reference for each work stream group, the resourcing of the work stream groups and contextual issues such as Competition Law and other structural and legislative considerations.

The Steering Committee should not be chaired by AEMO and might even exclude the organisation “AEMO” from membership. Officers and members of AEMO might (given their proven expertise and experience) be appointed to serve on the Steering Committee, but as individuals and not as officers of their respective organisations. It may be appropriate that Consumer Forum input is specifically focused at the Steering Committee level.

The creation of separate executive panels for each work stream could be avoided with the incorporation of a Steering Committee to improve efficiency and outcomes.

We suspect that Option 3 runs the risk of excursions beyond AEMO’s functions and objects unless the matters to which it is applied are very strictly limited.



Is there a clearer line of sight on important issues from the CEO Roundtable through the panels and the working groups?

Potentially, but time constraints for market participants at the CEO level may manifest in missed or delegated attendance which defeats the purpose of the forum. We suggest that a CEO roundtable is probably not warranted for gas, but that those at senior levels in participant organisations might be encouraged to attend the Retail Markets meeting on a quarterly basis.

More particularly, if the Terms of Reference for each work stream are limited to operational matters this is hardly an appropriate forum for CEOs. If the Terms of Reference of the CEO Roundtable extends to consideration of industry development and strategic planning, then the role of an industry representative organisation, hosting meetings of its members CEO's for this purpose, might raise competition law concerns.

Is there sufficient connection between AEMO, industry, and consumer group executives?

If connection means the opportunity to share ideas and expertise, possibly not for gas market matters.

Do you have any feedback on three options for selecting the strategic level panels, under Option 3?

Option 2 is preferred with the replacement of the strategic level panels by a Steering Committee sitting over all work streams. Otherwise, see comments above

Will these models ensure issues are brought forward for stakeholder collaboration and prioritisation early in the process?

Irrespective of the model adopted, this depends on implementation. The keys to this being a) transparency of matters considered for review, b) independent and open consideration of whether the AEMO Engagement Model is the right framework, c) public allocation of work and resources to AEMO work streams and d) the management (expansion, removal, etc) of matters being considered.

To achieve these outcomes, matters that need to be considered should be declared and considered early in the process before being allocated to one work stream or another. That, at least, could ensure a single list of matters under consideration and allow all market participants to engage where they consider engagement appropriate.

Is there flexibility to cover immediate or deeper issues, over short or long timeframes?

With proper supervision, the proposed work stream structures should be able to manage and contemplate immediate or deeper issues, in appropriate (but managed) timeframes.

Will the inter-related tiers of “strategic, transient, and functional” underpin current best-practice operations as well as analysis of future needs?

If a Steering Committee is placed as a filter above the proposed Engagement framework, and a matter needs to be considered and it is deemed appropriate that AEMO is the body to conduct the Engagement process, it should be possible for the Steering Committee to either assign the Engagement task within the proposed structure or to establish a task specific forum under the AEMO umbrella. So long as the Steering Committee process is



transparent that should not raise concern. To that end the Engagement model does not have to be burdened by the requirement to cover every contingency.

Further, a thorough review of the coverage and reach of the Engagement Model will minimise the risk of issues emerging that are not covered by the framework.

If consumer voices are integrated into each strategic work stream, is there still value in a stand-alone consumer panel?

We have had no involvement with the consumer panel in gas fora but recognise the value of consumer representation in work stream groups.

One difficulty with consumer representation is attracting representative groups that have the time to learn about the industry and contribute effectively. Relying on the same organisations (e.g. WACOSS, St Vincent de Paul) all the time is often difficult as they are not necessarily funded or resourced for these activities and they are financially stretched. Targeted, specific engagement, particularly at the highest level of problem definition and work allocation may be more effective and allow consumer groups to more efficiently engage with the industry.

Are there any gaps in our proposed new approach?

Please see comments above concerning the alignment of the Engagement Model with the specific functions and objects of AEMO, a exploration of the limits (if any) posed by AEMO's status as an industry representative organisation mandated to perform certain statutory functions and explicit consideration of the context in which Engagement takes place (notably, but not necessarily limited to, Competition Law).

Do you see any opportunities for integration of existing AEMO forums?

The proposed Option 2 engage model can readily be defined to provide for the creation of Retail Operations, Retail Markets, Wholesale Gas Market and Market Convergence/Interface work groups from the current fora, such as the GRCF, WGCF, WACF, etc.

Yours sincerely

Mike Lauer