



13 September 2013

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Submitted by e-mail: david.swift@aemo.com.au

Dear Mr Swift

## REVIEW OF AEMO GOVERNANCE ARRANGEMENTS

Origin Energy (Origin) appreciates the opportunity to provide comments on the Australian Energy Market Operator's (AEMO's) Discussion Paper reviewing its governance arrangements. As an industry member of AEMO, we are interested in AEMO's overarching governance arrangements. We agree it is important to review these arrangements periodically to confirm whether or not they are delivering outcomes that meet the expectations of energy market participants and Government, and to identify opportunities for improvement where possible.

As a principle, Origin considers it more constructive and appropriate for an independent body to conduct a review of AEMO's governance arrangements, rather than AEMO itself. While the Discussion Paper identifies some appropriate areas for review, the suggested changes to current governance arrangements appear to be limited to incremental improvements. We consider that an external perspective is important where there is scope for structural changes. An impartial observer can often identify opportunities that a vested party may miss.

With that context in mind, the remainder of this submission provides a response to the specific governance arrangements raised in AEMO's Discussion Paper.

### 1. Ownership split

AEMO's membership structure is unique, with a 60%/40% split between Government and industry. Origin supports industry having a membership share and agrees that it enhances accountability and responsiveness throughout the industry. In the context of the review of governance arrangements, we consider it worthwhile to investigate the benefits of adjusting the current weighting of Government/industry ownership.

In this regard we note that, as the majority shareholder, the Government, through the Standing Council on Energy and Resources (SCER), has been increasing the number of requests it makes of AEMO to undertake large energy market analysis projects. These projects require AEMO to divert resources away from its core market operations functions. Recent examples of such requests include:

- 100% Renewables Study;
- Development and establishment of a Gas Supply Hub at Wallumbilla, Queensland; and
- Development of a Rule change proposal to introduce a Demand Response Mechanism in the National Electricity Market.

While Government may fund some of these projects directly, its requests nonetheless impose an opportunity cost on AEMO - and industry more broadly - in relation to other work streams and capacity to commence new projects. SCER terms of reference tend to carry strict delivery timeframes, which can function to prioritise Government-requested projects ahead of industry-based projects. In addition, there is a significant cost to industry as a consequence of these Government-requested projects; energy market participants are expected to engage actively and provide information and support to these projects. This creates resource allocation constraints for each individual industry participant also.

While we appreciate AEMO's efforts to improve prioritisation of work streams by establishing the retail and wholesale market leaders' forums, Origin considers that a change to AEMO's ownership structure that gives industry a greater proportion of ownership may provide additional perspective to inform resource allocation. We therefore consider that changes to the ownership split deserve further consideration.

## **2. Board appointment and reappointment**

We support a Board appointment process that would enable involvement of all members earlier in the process. As noted in the Discussion Paper, the current appointment processes differ from the general approach adopted by corporations. We are concerned that the current processes do not reflect best practice.

Origin considers there is merit in explicitly involving an industry member representative from the first stage in a selection process. This would provide an approach that is more representative of AEMO's membership for both initial appointments and reappointments. Broadening industry member engagement at the outset would enable the process to benefit from industry members' diverse experience and expertise, and to strengthen the accountability of the Board to all members, both industry and Government.

## **3. Length of Board appointments**

In determining the appropriate length and number of Board terms, there is a careful balance between utilising experience and providing scope for new perspectives and ideas. We therefore consider that there may be value in increasing the number of terms available for reappointment.

However, our support for this change is subject to the improvements to the Board appointment process discussed above. In particular, there would need to be adequate and early industry input to the selection process and appropriate industry input into any review processes for Board appointees.

## **4. Skills matrix for board appointees**

Origin supports expanding the skills matrix in key areas, particularly IT systems, and agrees that a broader skills matrix would better reflect AEMO business needs. We consider that the amendments suggested in the Discussion Paper (skills relating to the 'operation or knowledge of network business' and 'operation or detailed knowledge of complex information technology systems') are useful starting points and we encourage further development in this area.

## 5. Definition of independent director

We support AEMO's recommendation to align the definition of 'Independent Director' within the AEMO Constitution to that used by the ASX in its Corporate Governance Guidelines. Origin agrees that this will likely allow a larger pool of candidates to be considered for future board appointments and thereby enhance AEMO's governance arrangements.

## 6. Discrete working capital fund

In principle, we could support a narrow remit in which to fund additional (closely defined) activities, but only in the context of reforms to the Board appointment process discussed above. This is because it is necessary to allocate resources in a manner that reflects the diversity of AEMO's stakeholders.

An additional caveat to this in principle support is that we would not support the fund, paid for by market participant fees, being used to supplement Government-requested projects. We would also expect there to be appropriate restrictions to ensure that additional activities were closely related to AEMO's core work.

## Conclusion

While Origin supports AEMO's work on the review of its governance arrangements, we consider that an independent body would be better placed to conduct this review. An external and impartial perspective could provide important insights in relation to how to improve current governance arrangements. We are concerned that the changes suggested in the Discussion Paper are limited to incremental improvements, and that there has not been adequate consideration of broader structural changes.

We strongly support a more equal role for industry members at the initial stages of the Board appointment process. Such changes to the appointment process will create scope for changes to appointment length and funding of additional activities.

Should you have any questions or wish to discuss this information further, please contact Hannah Heath (Manager, Wholesale Regulatory Policy) on (02) 9503 5500 or [hannah.heath@originenergy.com.au](mailto:hannah.heath@originenergy.com.au).

Yours sincerely,



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