

AEMC Statement of Intent 2022

1. Introduction and Context

On 19 September 2022, the Australian Energy Market Commission (AEMC) received a Statement of Expectations from Energy Ministers. The Statement of Expectations communicates Energy Ministers' expectations for the operation and performance of the AEMC that is consistent with the AEMC's independent statutory role for rule-making and market development for the majority of the Australian Energy Market. The issuing of a Statement of Expectations is regulatory best practice and outlines Energy Ministers' views on improving governance, transparency, collaboration and outcomes from all market bodies.

The AEMC has developed a Statement of Intent in response to the Statement of Expectations.

The Statement of Intent focuses on:

- How the AEMC intends to achieve the requirements of the Statement of Expectations.
- The AEMC's role in delivering on its key statutory requirements.
- AEMC's approach to best practice stakeholder engagement and collaboration with governments, market bodies, market participants, energy consumers and investors.
- A set of outcome-focused performance indicators as well as metrics for the operation of the AEMC.

The AEMC is responsible for rule-making and market development of the majority of the Australian Energy Markets. As a national, independent body, the AEMC makes and amends the detailed rules for the National Electricity Market (NEM), involving participating eastern states, elements of the Northern Territory Electricity Market, elements of natural gas markets including in Western Australia. The AEMC is also responsible for retail electricity markets in jurisdictions covered by the National Retail Law. To further support the development of these markets, the AEMC also provides strategic and operational advice to the Ministers responsible for Energy. The AEMC does this in accordance with processes set out in the national energy laws, the central focus of which is the long-term interests of consumers. The AEMC also monitors, reviews and reports on the safety, security and reliability of the national electricity system through the reliability panel.

The Energy Ministers' Meeting (EMM) is a forum for collaboration between the Commonwealth, State and Territory governments on matters of national significance requiring joint action in relation to energy. Energy Ministers have oversight of national energy policy, as well as the governance and associated institutional arrangements and regulatory frameworks, including the development of policies to enhance the security, reliability and affordability of energy supplies.

2. AEMC Strategic Challenges and Objectives

The energy sector is at the heart of the great challenge to achieve net zero by 2050. The scale and complexity of the changes the sector will face over the next 20 years is immense. In an increasingly complex world, there are great opportunities to maximise the benefits of the transition for consumers, and the Australian economy. The market is evolving at pace and by working with other key stakeholders to get the right market settings in place, we can expect a smoother transition that will unlock the enormous benefits of cleaner, smarter, affordable and reliable energy. In these times of greater uncertainty, we are becoming more innovative, taking risks and prioritising the most important issues to get things done.

Through our internal strategic planning process, the AEMC has identified two key uncertainties that it needs to grapple with. The first is the level of coordination in responding to climate change both in Australia and internationally, and how this impacts the energy sector as it decarbonises. The second

is the pace, nature and scale of disruption that new technologies bring to the sector and how this can both impact and empower consumers.

The AEMC's Strategic Plan, which was launched in September of 2021, sets out the objectives for the Commission that will enable it to navigate through these uncertainties. These objectives include:

- Being more practical, focussing on interactions between the Rules and what is happening in the sector and the broader environment.
- Being forward-thinking, ensuring that advice and changes fit together with the long-term direction of the sector.
- Being collaborative, adapting the way that we collaborate with all our stakeholders so that our engagement is truly two-way and ongoing.

3. AEMC priorities and response to Statement of Expectations

The Commission acknowledges and accepts the Energy Ministers' 2022 Statement of Expectations.

The market is evolving rapidly and by working closely with Energy Ministers, fellow market bodies, industry and key stakeholders to ensure the right market settings are in place, we can expect a smoother transition.

In our capacity as an advisory body to the Commonwealth, State and Territory governments, the AEMC will continue to provide strategic and operational advice to Energy Ministers and meet the expectations outlined in the 2022 Statement of Expectations to achieve the objectives of the Strategic Energy Plan (SEP).

The AEMC will:

1. perform its roles and functions as defined in the Act and in accordance with requirements in the legislation and agreements listed in Schedule 1 of the Statement of Intent
2. support, through its work, the achievement of:
 - a) the National Electricity Objective, the National Gas Objective, and the National Energy Retail Objective
 - b) the outcomes and objectives of the SEP
3. manage the rule change process and consult and decide on rule change requests made by others, in accordance with processes set out in the law, with a central focus on the long-term interests of consumers
4. undertake reviews and provide advice to Commonwealth, State and Territory governments on improvements to regulatory and energy market arrangements
5. ensure its rule change and review processes that contemplate regulatory change have regard to the principles of best practice regulation set out in the Regulatory Impact Analysis Guide for Ministers' Meetings and National Standard Setting Bodies (2021), including by:
 - a) ensuring establishment of a case for action before addressing a problem, and ensuring there is an acceptable level of evidence
 - b) improving the quality of regulation impact analysis through the use, where possible, of cost benefit analysis. This will include a new transparent tiering approach to the AEMC work that outlines our decision-making on the level of cost benefit analysis that we undertake.
 - c) ensuring the regulatory impact of any proposed regulatory change is made fully transparent to the public as soon as possible and to relevant decision makers in advance of decisions being made

6. act independently and objectively in performing its functions and exercising its power, in accordance with the requirements of the Act and the national energy laws, and in accordance with best regulatory practice and good corporate governance
7. understand the impact on the energy sector of policies outside the energy market portfolio – such as emissions reduction policies – and promote integrated and consistent policy outcomes
8. provide advice on what initial reforms are necessary to current regulatory frameworks to improve the timely and efficient delivery of major transmission projects.

The AEMC's priority is to deliver for consumers in the long-term. We work to improve Australia's future productivity and living standards by contributing to a decarbonising, affordable and secure energy system.

Our current priorities include:

1. *Transmission Planning and Investment Review (TPIR) - investment and planning*

This Review looks at multiple issues relating to the planning and delivery of transmission infrastructure. Many of these issues are complex and interlinked, but all go to the overarching objective of obtaining the right balance between time and efficiency to support the transition to net zero.

2. *Consumer Energy Resources (CER)*

This workstream considers how consumers and the system can benefit from increased integration of Consumer Energy Resources. This includes through reviews on the uptake of Smart meters, and compliance with, and enforcement of, CER technical standards in the NER. Key rule changes also include flexible trading arrangements rule change to enable consumer to benefit from multiple service providers.

3. *Essential System Services (ESS)*

This work stream seeks to value and procure essential system services like frequency, system strength and inertia that are key to supporting a changing generation mix. These services are necessary to keep the electricity grid in a safe, stable, and secure operating state. They influence the ability to balance supply and demand, deal with disruptions to this balance and address any other technical issues in real-time.

4. *Resilience of the market*

Due to an increasingly volatile market, and following the suspension of the NEM in June 2022, the Commission is focused on ensuring a stable and resilient system moving forward. This includes activities such as the resilience of the retail sector and updating market protection mechanisms such as the administered price cap.

5. *Improving Consumer Vulnerability*

AEMC continues to focus on improving consumer vulnerability. The recent rule change on protecting consumers facing family violence is a key deliverable in this work stream.

The AEMC updates its strategic priorities bi-annually. The next update will occur before the end of the 2022-23 financial year to inform the next two years. This process will seek input from all key stakeholders including consumer groups, market participants, market bodies and governments. Effective prioritisation is key to the AEMC being effective in delivering on its statutory objectives. The scale and pace of change in the sector means it is critical that the AEMC focuses on the highest priority issues that will deliver the greatest outcomes for consumers over the long run. The AEMC intends to be transparent and consultative over its priority process. To be effective the AEMC needs to balance its work on urgent rule changes, advice to Ministers and critically its own independent forward-looking assessments of how the rules and sector need to evolve to continue to meet the needs of customers.

In addition, as the independent body responsible for energy market rules we will continue to look to remove regulatory burden, and streamline and update the rules.

4. Stakeholder Engagement and Communication

Collaboration and effective engagement with stakeholders is fundamental to our ability to successfully meet our statutory objectives. This requires building relationships with stakeholders, including new stakeholder groups, to help increase our understanding of the key energy issues and concerns affecting the community. A key priority in our Strategic plan is adapting the way that we collaborate with all our stakeholders so that our engagement is truly two-way and ongoing.

We do this through our core work in rule making and undertaking reviews with an open, transparent and collaborative approach to stakeholder input. In addition, we have set up regular forums to connect with stakeholders across the sector and the community including:

- Investors forum
- Consumers reference group
- Innovators forum

We also have a dedicated engagement function with regular dialogue with energy market participants, peak body organisations and industry and consumer groups. We track and test the success of our engagement approach through regular surveys of stakeholders including a biennial stakeholder engagement survey. We intend to publish the key outcomes from this survey on our website in 2023-24.

4.1 Relationship with Energy Ministers

To enable the AEMC to undertake its core rule-making and review functions the relationship between Energy Ministers and the AEMC is essential.

The AEMC Chair and Chief Executive have regular meetings with Energy Ministers, as well as Senior Officials from each jurisdiction. The AEMC uses a number of channels to engage with Ministers on issues and priorities.

Energy Ministers can expect the AEMC will continue to support them by providing high quality and evidence-based advice on:

1. developing issues and required market and regulatory changes relevant to the Energy Ministers priorities, including growing and developing energy markets so consumers benefit from more efficiently operating markets
2. other issues as requested by Energy Ministers
3. clear communications on how the AEMC's work program of rule change requests and reviews support Energy Ministers' SEP
4. clear and timely communications on any other relevant matters
5. clear and transparent reporting on projects, budgets, and other matters as required
6. an annual Statement of Intent, in response to a Statement of Expectations, which will include, measurable and quantifiable outcomes-based performance measures.

4.2 Relationship with the Energy Security Board (ESB) and Market Bodies

The AEMC is one of several institutions established to govern the Australian electricity and gas markets. We are the statutory rule-maker and play an important role in market development and provision of advice to Energy Ministers.

A key element of the AEMC's Strategic Plan is ongoing effective collaboration with the other market bodies which, together with the AEMC, make up the Energy Security Board (ESB). The AEMC is developing new joint protocols with the Australian Energy Market Operator (AEMO) and the Australian Energy Regulator (AER) to continue to improve collaboration and interaction between market bodies, leading to better long-term outcomes for energy consumers. The draft AEMO/AEMC protocol has been developed with work on the joint AEMC/AER protocol to commence in 2023.

The AEMC is heavily engaged with the ESB, particularly on the capacity mechanism, transmission access reform and consumer energy resources (CER) workstreams. The AEMC continues to provide administrative support to enable the ESB to carry out its functions including finance, human resources and procurement.

4.3 Relationship with Consumers

Consumers are at the heart of everything we do at the AEMC.

We remain focused on effectively engaging with consumers and their representatives so their views can inform our work program.

To elicit effective engagement in our processes, particularly reviews and rule change processes, we aim to communicate to consumers in a clear and understandable way through the information we provide and the materials we produce.

We enhance our understanding of consumer needs by conducting surveys, focus groups and online forums to deepen consultation with consumer group leaders on their strategic priorities for energy market development.

This provides open communication beyond project-specific consultation and responds to requests by consumer stakeholders for more strategic engagement on market-wide issues. We engage regularly with consumer groups to continually gain insight into consumer needs and to keep them informed of our work streams. We have also established a dedicated consumer priorities forum to provide consumer feedback direct to AEMC Commissioners.

A new initiative we have recently implemented is an online consumer strategy group and a newsletter, which are both platforms for us to better connect with consumer representatives.

Finally, we ensure our documents and online materials are accessible and our consultation processes are transparent.

We remain agile to consumer feedback and continue to focus on delivering for consumers in the long-term.

4.4 Relationship with Market Participants

We maintain open and active dialogue with industry and business peak bodies to fully understand the implications of our decisions and ensure the advice we provide to Energy Ministers reflects real-world and real-time information.

Our stakeholder base is widening in the wake of market and technological change, with a growing number of renewable generation and battery participants, and innovators coming on board.

We engage frequently with industry through stakeholder reference groups, forums, workshops and meetings around specific rule changes and reviews and at Commissioner and senior management level.

Outside of project-specific engagement, we seek out stakeholders through initiatives such as investor forums and a newly established innovators forum to ensure we are communicating with a varied list of industry stakeholders and market participants on broad themes.

Industry representatives are also part of the Reliability Panel, along with AEMO, network & consumer representatives. This panel was established by the AEMC under the National Electricity Law to monitor and provide advice about the safety, security and reliability of the national electricity system.

4.5 Relationship with the South Australian Minister

The AEMC was established by the South Australian parliament under the Australian Energy Market Commission Establishment Act 2004 (SA) and is therefore accountable to the South Australian Minister for Energy and Mining.

The AEMC carries out its work in accordance with the Act and other relevant national energy legislation, rules and agreements.

The AEMC Chair and Chief Executive meet regularly with the Minister and the South Australian Energy Senior Official to discuss key industry and organisational matters.

6. Reporting

6.1 Financial reporting

The AEMC continues to implement a robust and transparent financial management program on which we report quarterly to the South Australian Minister for Energy and Mining. The AEMC’s finance department regularly coordinates with the Government of South Australia and the Auditor-General’s Department to ensure all information is delivered in a thorough and efficient manner.

6.2 Other reporting requirements

In addition to the relationship with the South Australian Minister, the AEMC recognises that it is accountable to all Energy Ministers and will provide a bi-annual report against the metrics outlined in this Statement of Intent as well as an Annual Report.

Apart from the reporting requirements under the Australian Energy Market Commission Establishment Act 2004 (SA) and National Energy Laws, the AEMC is required to comply with a number of South Australian, New South Wales and Commonwealth laws relating to such matters as record keeping, information disclosure, financial reporting and employment related matters.

7. Key Performance Indicators

The proposed AEMC performance indicators for the Statement of Intent are aimed at delivering on the key metrics that demonstrate outcomes from AEMC activities in line with the Statement of Expectations and metrics regarding the overall efficiency and organisational health.

It is proposed these metrics will change significantly from the previous Statement of Intent that had numerous output measures that did not adequately reflect the effectiveness of the AEMC’s work.

The below indicators also better align with the key objectives of the AEMC’s current Strategic Plan.

It is proposed the metrics will be reviewed every year so they remain fit-for-purpose, taking into account feedback from stakeholders. We report on these as part of the AEMC’s Annual Report and half-yearly reporting to Energy Ministers and all information will be made available on our website.

Category	Metric
Practical rule changes and advice	<p>Make meaningful and substantial progress on the need for the design and delivery of, key market design priorities:</p> <p><u>Consumer energy resources</u></p> <p><u>Essential system services</u></p> <p><u>Transmission planning and investment</u></p> <p>Metric: Regular qualitative reporting on progress of rule changes and reviews against these agreed priorities. Priorities will be updated bi-annually with input from</p>

	<p>key stakeholders including jurisdictions, market bodies, market participants and consumer groups. Next update will occur for 2023-24 financial year.</p> <p>Track progress of the outcomes of key rule changes that have been recently implemented to determine their success and to influence future decisions.</p> <p><u>Integrating energy storage systems into the NEM:</u></p> <ul style="list-style-type: none"> • Key implementation dates met as per rule change • Small Resource Aggregators commence providing ancillary services (from March 2023). <p><u>Fast Frequency response</u></p> <ul style="list-style-type: none"> • Use of mechanism by AEMO • Prices and volumes by technology • Frequency performance • Consideration of level of inertia and trade-off with fast (6 second) services • Qualitative feedback from AEMO. <p><u>System Strength</u></p> <ul style="list-style-type: none"> • Key implementation dates met • Qualitative lessons from implementation <p><u>5 Minute Settlement (5MS)</u></p> <ul style="list-style-type: none"> • Changes to bidding incentives & observed behaviours • Improved price signals for more efficient use of generation • Improved price signals for more efficient investment in generation, storage and demand response technologies • Contract market trends, particularly for cap contracts. <p><u>Wholesale demand response mechanism – WDRM</u></p> <ul style="list-style-type: none"> • Quantity of WDRM registered participants • Total MW of WDRM active • Bidding strategies of WDRM participants • Value of wholesale demand response • Any barriers to participation under the current implementation <p><u>DER access and pricing rule implementation</u></p> <ul style="list-style-type: none"> • How DNSPs are providing export services to customer, in particular, how DNSPs are considering export services as part of their overall business and network operating plan as opposed to a discrete item. • How the consumer safeguards in our final rule are being implemented. • DNSPs development of export tariff options. Monitor the type of tariffs being offered and whether DNSPs are using tariffs to reward exports where there is benefit to the grid. Also monitor whether DNSPs are conducting tariff trials prior to proposing ongoing tariff options • Retailer uptake of export tariffs. Monitor how retailers are passing on export pricing signals (or not)
<p>Being collaborative – Engaging with stakeholders</p>	<p>Stakeholder Reputational Research overall reputation score and approach to collaboration of >60 per cent (i.e., >60 per cent of respondents provide a score of 7 or more out of 10 in satisfaction)</p> <p>AEMC Stakeholder Reputational Research score of 60 per cent on collaboration with other market bodies.</p>

	Survey stakeholders for 20 per cent of AEMC projects within a financial year.
Investing in our people	Turnover of our people at 15 per cent to 25 per cent per year.
	Overall score from staff engagement survey at 70 per cent or above
Delivering our work efficiently	75 per cent of rule change requests initiated within four months of receipt
	Actual expenditure tracks budget +/- [5 per cent].
	Embed the brevity framework throughout the organisation, measured by: <ul style="list-style-type: none"> • Performance score from Stakeholder Reputational Research of 50 per cent on public consultation

Lead Indicators (that guide our work):

Taken from current Strategic Energy Plan Outcomes and Objectives

Category	Metric
Affordability	Representative consumers retail bills for electricity and gas
Security	Number of system interventions related to system security
Reliability	Amount of unserved energy (with reference to reliability standard) and interruptions to gas supplies
Sustainability	Electricity and gas sector emissions