



Statement of Intent of the Australian Energy Market Commission for the Financial year 2014/15

On 13 December 2013, the COAG Energy Council (formerly the Standing Council on Energy and Resources) agreed to a Statement of Expectations for the Australian Energy Market Commission (AEMC).¹ The Statement of Expectations is designed to strengthen governance arrangements and is part of the energy market reforms undertaken by COAG.

This Statement of Intent is the AEMC's response to the requirements set out in the Statement of Expectations and includes Key Performance Indicators (KPIs).

1 Our role and responsibilities

The AEMC is the rule maker and developer for Australian energy markets. This includes making rules in relation to the National Electricity Market (NEM); transmission and distribution networks; wholesale gas markets and natural gas pipelines. From 2012, our rule making expanded to include the retail sale of energy to consumers through the National Energy Consumer Framework (NECF).

In addition, we also provide strategic advice to the COAG Energy Council and, on the Council's request, undertake market reviews.

The AEMC also monitors, reviews and reports on the safety, security and reliability of the national electricity system through the Reliability Panel and provides administrative support to the Consumer Advocacy Panel (which is independent of the AEMC). The Consumer Advocacy Panel funds community involvement in energy debates.

The AEMC's principal focus in undertaking its functions is to give effect to the National Electricity Objective², the National Gas Objective³, and the National Energy Retail Objective.⁴

2 Relationship with the COAG Energy Council

The COAG Energy Council (or the Council) provides national leadership and coordination of energy policy development. Its objective is to provide for the safe, prudent and competitive development of the nation's mineral and energy resources and markets to optimise long-term economic, social and environmental benefits to the community. The Council's Terms of Reference are currently being revised and will be reviewed once available.

As the rule maker for Australia's energy markets, our effective engagement with the Council is critical to the Council meeting its objectives.

¹ The Statement of Expectations is available on the Council's website -

<https://scer.govspace.gov.au/files/2014/02/AEMC-Statement-of-Expectations1.pdf>

² Section 7 of the Schedule - National Electricity Law in the *National Electricity Act 1996 (SA)*

³ Section 23 of the Schedule - National Gas Law in the *National Gas Act 2008 (SA)*

⁴ Section 13 of the Schedule - National Energy retail Law of the *National Energy Retail Law Act 2011 (SA)*

2.1 Supporting the work of the COAG Energy Council

The Statement of Intent identifies four specific activities that the Council expects the AEMC to undertake in supporting the Council's objectives. Below we set out how we intend to undertake each of these activities.

2.1.1 Advice on developing issues

Ongoing engagement

Core to the AEMC's role is the provision of objective expert advice to the Council on energy market issues. This includes alerting the Council to the potential impacts of policy in other areas that cut across energy, so that policies are developed and implemented in an integrated manner. We will continue to pro-actively inform the Council of relevant energy market issues through our stakeholder engagement; in particular, through the process we undertake to identify Strategic Priorities for the energy market (see Box 1).

The AEMC will continue to use a number of channels to engage with the Council on issues and priorities. The AEMC's formal briefings at Council meetings are an opportunity to provide both written and verbal updates on relevant matters. We also undertake more informal engagement with Council members, which includes individual meetings with Ministers (jurisdictional and Commonwealth) with responsibility for energy policy. The focus of these meetings is to engage in ongoing dialogue with Ministers on work program progress and issues and gain a deeper understanding of the specific concerns relevant to their jurisdictions. Regular engagement allows us to be more adaptive and responsive to the needs of the Jurisdictions and minimise potential for surprises.

Earlier in 2014 we initiated monthly briefings for the Energy Market Reform Working Group (EMRWG). We will continue these meetings over the 2014/15 period. This regular dialogue with officials allows us to remain up to date and responsive to evolving Council priorities. We also participate in a number of other more targeted Council-related working groups, such as the Demand Side Participation (DSP) working group. These groups provide an important avenue for us to test our understanding, contribute our expertise and exchange ideas in relation to specific work programs.

Developing our capabilities

Integral to the AEMC's capacity to provide the best possible advice to the Council is our continued focus on improving our capabilities and supporting systems. We also recently implemented a three year strategic IT plan to improve productivity and increase our ability to engage with stakeholders.

A comprehensive business risk assessment is undertaken and updated annually to help review and identify significant risks, and consider whether the controls in place are appropriate for managing these risks. The business risk assessment informs the development of our three year internal audit plan.

The AEMC also has a rigorous performance management process in place which allows for continuous monitoring and regular feedback on staff performance. We have development plans for all staff, which are focused on improving individual competencies and technical capabilities necessary for AEMC to achieve its objectives and effectively carry out its functions.

Box 1: Our Strategic Priorities

We develop strategic priorities for energy market development which take account of stakeholder views on how best to serve consumer interests. These priorities form the basis of our market advisory role and are reviewed periodically through a process of public consultation. This enables us to regularly update the COAG Energy Council on stakeholder views of the opportunities, risks and challenges facing the energy sector. They also provide context for the Council to consider its future work program for the energy sector and to evaluate progress.

After extensive stakeholder consultation, we published our refreshed strategic priorities for energy market development in October 2013. Contributions from workshops and submissions allowed us to refine the priorities, which are the following:

- **Strengthening consumer participation while continuing to promote competitive retail markets**

Our consumer priority is to help empower consumers so they can make choices about how to manage their electricity consumption and choose the best energy services to meet their needs. This priority recognises the changing role of consumers in energy markets. Empowered consumers can benefit from, and contribute to, the effective functioning of the electricity and gas sectors.

- **Promoting development of efficient gas markets**

Our gas priority recognises the growing importance of natural gas as an export commodity over the long term and as a fuel source. This priority considers whether the gas market and regulatory frameworks will continue to promote the efficient allocation of gas and investment in gas infrastructure, in light of the developing LNG export industry.

- **Developing market arrangements that encourage efficient investment and flexibility**

The market priority recognises that an attractive environment for investment is important to attract the capital necessary to provide efficiently priced, safe, secure and reliable electricity. This priority emphasises the importance of market and regulatory arrangements that are predictable, transparent and responsive to changing market and external circumstances.

We will keep these strategic priorities under review as the energy market and policy environment develops.

2.1.2 Advice on requested issues

We strive to provide timely, relevant and independent advice to the Council on specific issues as requested. The regular dialogue with Ministers, EMRWG and COAG officials' working groups we have set out above will bring greater visibility to the areas in which the COAG Energy Council may request advice.

We are also exploring with Ministers and officials the opportunity to 'stage' the advice given in relation to the work program and larger reviews. This would enable the Council to be appraised of the direction of the work, and the issues covered, earlier in the process. This would provide the opportunity for the Council to confirm the continued relevance of the direction taken, or seek variations, given the inevitable changes in priorities that occur as work programs and reviews evolve over time.

We will continue to progress discussion on alternative approaches to advice with the COAG Energy Council and officials, with the goal of making sure that the advice provided is timely, relevant and fit-for-purpose.

2.1.3 Reporting on projects, budgets and other matters as required

We report regularly to the Council on our work program and budget. This reporting includes the allocation of resources to various projects, the size of the project in terms of cost allocation and how our overall costs are tracking against budget. We also provide updates on our budget and strategic financial issues affecting the AEMC at the Council meetings.

The detail provided in our budgeting provides an opportunity for the Council to review whether our resources are being allocated in a manner consistent with the Council's evolving priorities.

2.1.4 Clear communication on other matters

We will respond promptly to the COAG Energy Council in respect of requests relating to any other matters.

2.2 Key Performance Indicators

The AEMC has developed KPIs in the following areas:

- Progress on the work program
- Engagement with stakeholders
- Organisational management and capability development.

Our KPIs for the 2014/15 year in relation to these areas are set out in Appendix A. Many of these indicators are used by AEMC management and are accompanied by targets or other appropriate performance benchmarks. Other indicators measure activity in areas that are useful for the Council and other stakeholders. In some of these areas we require a longer history of data to be able to determine an appropriate performance target. These KPIs will be reviewed and enhanced every year to ensure they remain fit for purpose, taking into account feedback from stakeholders and the Council.

We will report on these KPIs as part of the AEMC's Annual Report. Half-year reporting will also be provided against these KPIs, where the relevant information is available.

3 Other stakeholder engagement and communication

Effective engagement with stakeholders is fundamental to our ability to successfully meet our statutory objectives. This requires building relationships with stakeholders that increase our understanding of the key energy issues and concerns affecting the community. We maintain regular dialogue with stakeholders to understand the impact of the market changes we make.

A key priority for the AEMC is to provide stakeholders with effective channels to present their views. While we do not always expect stakeholders to agree with us, they should feel they are listened to and understand how we have come to our decisions. We seek to lead debate about the consequences of different policy options and engage to promote dialogue and understanding.

We also look for better communications tools to assist with this stakeholder engagement. Updating our website and providing quarterly e-newsletters are actions which are designed to improve the ease of access to information for all stakeholders through more comprehensive, easy-access overviews.

3.1 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 government reflects real world practicalities.

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. Industry representatives are also part of the Reliability Panel 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.

In addition to project-specific engagement, in 2014-2015 we will also organise our engagement to include a formalised rolling annual program of one-on-one and group industry executive and peak body briefings on broad themes raised by our work. We will also continue to present to industry and attend industry events.

The significance of gas to the Australian economy has increased and we will continue to engage more broadly and deeply with gas industry stakeholders.

3.2 Relationship with consumers

The AEMC is currently focused on improving its engagement with consumers. It is critical for consumers and their representatives to be engaged in our consultation processes so their views can be properly considered by our work program. Developing meaningful ways to engage with small consumers in particular is a current key priority for the AEMC.

To elicit effective engagement in our processes, particularly reviews and rule change processes, we need to communicate to consumers in a clear and understandable way through the information and materials we produce, and have consumer advocates provide input into our work. This includes investigating measures to help consumers better understand the potential impact of rule changes and assist them to prioritise their engage with us. We have also enhanced our understanding of individual consumers by conducting surveys, and holding focus groups and deliberative forums.

The AEMC is currently undertaking a series of Consumer Priorities Forums to deepen consultation with consumer group leaders on their strategic priorities for energy market development. The first forum was held on 19 May 2014. This provides an alternate consumer engagement pathway beyond project-specific consultation and responds to requests by consumer stakeholders for more strategic engagement on market-wide issues.

Finally, we have made our documents and online materials more accessible and consultation processes more transparent. We prepare summaries, information sheets, fact sheets and other accompanying materials to make our work more easily understood and meaningful for consumers. We are continually looking for ways to improve the clarity and readability of our reports.

3.3 Relationship with other market institutions

The AEMC is one of three institutions established to govern the Australian electricity and gas markets. We are the statutory rule maker and also have an important role in market development and provision of advice to the COAG Energy Council. The Australian Energy Regulator (AER) is responsible for monitoring electricity and gas wholesale markets, regulating retail markets and networks and compliance monitoring and enforcement of the national energy laws. The Australian Energy Market Operator (AEMO) operates the wholesale energy and retail markets and delivers planning advice to network businesses, governments and market participants. Each institution has clear and separate responsibilities.

We actively maintain an open and cooperative relationship with the three market institutions at all levels. This relationship is reflected in Memoranda of Understanding (MOUs). It is also given effect through regular meetings between the Commissioners of the AEMC and the AER Commissioners, and between the AEMC Commissioners and the AEMO Board. In addition the AEMC senior management team holds regular meetings with the senior management teams of the AER and AEMO.

The AEMC is committed to continuing and building on this partnership approach. In addition to regular dialogue on strategic and general market matters we engage with the AER and AEMO on specific rule changes and reviews, seeking their input at roundtables, workshops and through submissions. AEMO is also represented on the AEMC Reliability Panel.

The AEMC also actively engages with other institutional bodies. To assist in the performance of our functions, we have entered into MOUs with a number of organisations including the Australian Competition and Consumer Commission (ACCC) as well as state Commissions and Ombudsman offices.

Economic regulators in each jurisdiction are also key stakeholders, including in Western Australia where the National Gas Rules are applied by the Economic Regulation Authority (ERA). In addition to current engagement on specific reviews and rule changes, we will also seek to expand our engagement with these bodies.

3.4 Relationship with the South Australian Minister

The AEMC is enabled by the South Australian legislative process and the South Australian Minister for Mineral Resource and Energy has responsibility for the process. We have implemented a robust and transparent financial management program on which we report quarterly to the Minister.

4 Other reporting

In addition to its powers and functions 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.

Appendix A: Key Performance Indicators

These performance indicators are still being developed and refined. There are several measures of activity (marked with an *) which do not currently include an associated performance benchmark. It is anticipated that over time a performance target will be established.

Area	Measure
Organisation	
Budget management	Annual expenditure is within +/- 5% of initial budget
Staff management	Staff turnover, on average, of between 10% and 20% per year (to reflect proactive management of underperformance and retention of key staff)
Staff development	100% of staff have objectives and personal development plans which are reviewed annually
Effective governance	Annual management review of risk assessment framework and implementation of appropriate internal audit work program*
Work program	
Rule change requests	75% of requests initiated with 4 months of receipt 100% of rule changes made within statutory timelines (including where extensions are requested)
Rule change extensions	Proportion of rule change processes that are extended*
Rule change challenges	0% of rule change challenges are upheld
Market reviews and advice	85% of reviews completed within original ToR timelines
Efficient resource use	Proportion of FTE and total budget spend on rule making and market advice*
Stakeholder engagement	
Council and Jurisdictions engagement	Number of formal meetings attended by Commissioners and/or staff with Council and/or Jurisdictional leads*
Commissioner forums	Number of consumer and industry forums attended by Commissioners *
Staff-led forums	Number of consumer and industry forums attended by AEMC staff*
Institutional co-operation	Number of meetings between Commissioners and AEMO and AER leadership*
Stakeholder satisfaction	At least 7 out of 10 stakeholders are satisfied with the AEMC's performance in stakeholder satisfaction survey run every 3 years Develop project-specific stakeholder satisfaction surveys and ensure at least 25% of projects initiate survey upon project completion*