

Statement of Role for the Australian Energy Market Operator (AEMO)

In the event of any inconsistency between this Statement of Role and AEMO's obligations under law and/or its Constitution or the AEMO directors' duties, the latter instruments and duties prevail.

This Statement of Role communicates Energy Ministers' understanding of AEMO's key roles under the national energy laws and rules, the Australian Energy Market Agreement, the National Electricity Market and Australia's international obligations. Separately, AEMO operates the Western Australian Wholesale Electricity Market (under s. 121(2)(b) of the *Electricity Industry Act 2004 (WA)* and the Electricity Industry (Wholesale Electricity Market) Regulations 2004 (WA)) and also engages with individual State and Territory Governments on a variety of projects.

Given AEMO's important statutory roles and Energy Ministers hold majority membership of AEMO, this Statement of Role also communicates Energy Ministers' expectations for the operation and performance of AEMO, supported by outcome-based performance indicators drawn from the Energy Ministers' Strategic Energy Plan (SEP) and in the context of the important role AEMO plays as part of the national energy market governance structure. Energy Ministers note AEMO is required to also consider the interests of all members including the minority members of industry.

Similar Statements have been prepared for the Australian Energy Regulator (AER) and the Australian Energy Market Commission (AEMC), as well as a Terms of Reference for the Energy Security Board (ESB) to emphasise shared accountability, as market bodies need to work collaboratively to pursue whole-of-system performance objectives and provide advice on strategic issues. Market bodies should also collaborate in relation to NEM market development work conducted by the ESB.

Energy Ministers are issuing this Statement of Role to AEMO consistent with regulatory best practice, the recommendations of various reviews into energy sector governance and relevant legislative frameworks, while taking into account AEMO's statutory independence and the duties of its directors.

Energy Ministers expect AEMO will respond with a Statement of Corporate Intent within the timeframes specified in its Constitution. AEMO is also required to release a bi-annual report against achievement of the Statement of Intent and an Annual Report.

This Statement of Role applies from the date of receipt until otherwise amended. The Statement of Role will be refreshed every three years, or as required by Energy Ministers.

This Statement of Role does not limit AEMO's functions, responsibilities or accountabilities under applicable legislation and AEMO's Constitution.

Context

AEMO is Australia's independent energy markets and power systems operator for the majority of Australia's energy markets, with functions conferred by national energy laws¹ and rules.

As the electricity system operator in the NEM and south-west Western Australia, AEMO monitors supply and demand, voltage and frequency, and manages planned and unplanned outages, and emergencies. AEMO also operates Australia's electricity and gas markets, which

¹ National Electricity Law, National Gas Law and National Energy Retail Law.
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like the stock exchange, allow energy or other energy-related services to be bought and sold in a competitive environment. AEMO's work also goes beyond day-to-day operations and includes planning and forecasting work which assist management of the power system and efficient investment and inform policy decisions by governments, regulators, industry participants and the community.

A company incorporated under the Corporations Act, AEMO has both government members² and industry members. Under its Constitution, AEMO is managed by a Board consisting of up to nine skills-based non-executive Directors appointed by Energy Ministers and a Chief Executive Officer/Managing Director. AEMO's Board is accountable to AEMO's members and is responsible for, amongst other things, setting AEMO's goals and strategy and oversight of AEMO's activities to achieve its objectives. The AEMO Directors owe duties to, amongst other things, act in good faith in the best interests of the company as a whole, and this Statement of Role cannot override those duties.

The Energy Ministers Meeting 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.

Energy Ministers released a Strategic Energy Plan (SEP) in November 2019 to ensure a clear strategic focus for Energy Ministers' work and to provide clarity of direction to market bodies and participants. The SEP communicates Energy Ministers' desired outcomes and provides a framework of accountability for coordinated action and monitoring against the stated outcomes and objectives. The SEP informs this Statement of Role.

In August 2022, Energy Ministers agreed to establish a new National Energy Transformation Partnership to support the smooth transformation of Australia's energy sector to net zero by 2050 or earlier. As the framework for national alignment and cooperative action across governments, delivery of reforms under the Partnership will be informed by expert advice and requires close collaboration with all energy market bodies. In particular, Energy Ministers anticipate working closely with AEMO on how to improve the integration between gas and electricity system planning and analysis.

In August 2022, Energy Ministers also agreed to a suite of priority reforms which are critical to improving reliability and gas system security, and which will respond to recent events in east coast energy markets and mitigate the risk of a recurrence. A key part of these reforms includes extending AEMO's powers to support security and reliability across east coast gas markets ahead of winter 2023.

Industry disruption and engineering challenges

When AEMO was established, power system operating conditions were relatively predictable with central large-scale synchronous generation and passive demand utilising a network designed to provide one-way flow to end consumers. The investment environment for the markets which AEMO administers was also relatively stable. Reflecting this, the governance and regulatory frameworks were also geared towards providing certainty and stability.

In recent years, however, the power system has been undergoing rapid transformational changes which give rise to significant engineering challenges for the security, reliability and affordability

² i.e. Energy Ministers.

of energy supplies. These changes include:

- Increased variability and uncertainty in the resource mix as seen through rapid increase of both distributed energy resources (DER) and wind and solar energy coupled with the retirement, or pending retirement, of conventional plant;
- Expected growth in battery storage, pumped hydro, and connected and standalone micro grids and micro markets;
- Changing impact of weather, including increased stress on the power system over prolonged heat periods; and
- The need to ensure market arrangements are structured in a way that supports the co-optimisation of the diversity of resources available, thereby allowing the system to deliver improved customer outcomes.

AEMO has unique insights and perspectives regarding power system security and reliability, the engineering challenges the industry faces, and the potential strategic directions required to meet those challenges. Energy Ministers recognise that AEMO's independent advice will play a key role in addressing the need to ensure Australia's energy supplies are reliable, secure and affordable, particularly in this period of transformation.

The role and responsibilities of AEMO

AEMO's roles are:

- 1) in relation to the National Electricity Market (NEM) and the Western Australian Wholesale Electricity Market (WEM), to carry out its statutory functions, including to:
 - a) operate and administer the wholesale electricity exchanges;
 - b) promote the development and improve the effectiveness of the operation and administration of the wholesale exchanges;
 - c) maintain and improve power system security in relation to those systems for which it is responsible; and
 - d) carry out other specific functions for Western Australia, Victoria, South Australia and New South Wales.
- 2) in relation to the gas industry, to carry out its statutory functions, including to:
 - a) operate and administer the Victorian declared wholesale gas market and the Victorian gas transmission system;
 - b) operate and administer the short-term trading market hubs in Adelaide, Sydney and Brisbane;
 - c) operate and administer retail gas markets in Victoria, Queensland, South Australia, Western Australia, New South Wales and the Australian Capital Territory;
 - d) operate and administer the Wallumbilla and Moomba gas supply hubs in Queensland and South Australia;
 - e) operate and administer the natural gas services bulletin board and the Western Australian gas bulletin board; and
 - f) promote the development, and improve the effectiveness, of the operation and administration of gas markets.
- 3) to be the National Transmission Planner for eastern Australia's power system and to carry out this role by promoting efficient transmission investment in the long-term interests of

consumers through identifying investments and providing an actionable roadmap that is required to meet new and emerging needs and looking at the latest technologies and non-network solutions that meet policy objectives at least cost to consumers.

- 4) to facilitate customer transfer in the retail electricity market and develop and maintain retail market procedures.
- 5) to contribute to the achievement of the SEP by:
 - a) providing ongoing analysis and insights on the transformation of Australia's energy sector from the perspective of the market and system operator and national planner;
 - b) working closely and collaboratively with the ESB and other market bodies on:
 - i. enhancements and developments to address the engineering challenges arising out of the transformation so as to ensure the security, reliability and affordability of energy supplies;
 - ii. improving existing markets as well as contributing to the development of new markets, for the benefit of the energy sector³;
 - iii. strategic directions for the sector; and
 - iv. fostering and developing innovative and flexible responses to the transformation so as to improve the security, reliability and affordability of energy supplies, including through trials or joint initiatives.
- 6) to seek to enhance the reliability and security of energy supplies for consumers including:
 - a) forecasting potential reliability gaps in each NEM region for consideration of the AER to trigger the Retailer Reliability Obligation when necessary.
- 7) to support cyber security and reliability across the NEM, WEM and the gas markets in eastern and south-eastern Australia through providing critical market systems and processes that have appropriate protections to minimise impacts of cyber incidents, collaborating with government(s) to identify, mitigate and respond to cyber security risks, and supporting participants where feasible to uplift their cyber security in line with Australia's Cyber Security Strategy.
- 8) the coordination and management of emergency arrangements in the NEM, WEM and the gas markets in eastern and south-eastern Australia. This includes collaborating with governments, emergency services and the energy industry participants during major disruptions of energy supply.
- 9) to perform any other functions, exercise any other powers and provide any other services as are:
 - a) contemplated by its Constitution;
 - b) conferred by a statute or legislative instrument;
 - c) provided for by an agreement or rules contemplated by a statute or legislative instrument; or
 - d) incidental or connected to any of the foregoing roles.
- 10) to contribute to, or participate in, market development policy and/or strategic market development activities initiated and/or lead by the AEMC or the ESB, or otherwise assist the AEMC to develop the energy markets. This contribution or participation may be technical or

operational in nature given AEMO's unique position in the energy market as the market and systems operator.

Expectations of AEMO

Recognising the important role AEMO plays in the national energy market governance structure, Energy Ministers expect AEMO to:

- perform its roles as set out in this Statement, and the functions as set out in the national energy laws and rules, AEMO's Constitution and the agreements as referenced in Schedule 1 and 2.
- support through its work, the achievement of
 - the National Electricity Objective⁴, the National Gas Objective⁵, and the National Energy Retail Objective⁶
 - the outcomes and objectives of the Energy Ministers SEP .
- act independently, objectively and with probity in performing its functions and exercising its powers in accordance with the requirements of the national energy laws, and in accordance with good corporate governance, best practice and the highest standards of probity.

Energy Ministers' Strategic Energy Plan and equivalent documents

Energy Ministers expect AEMO, through its work and governance arrangements, will prioritise the achievement of the SEP outcomes and objectives (listed in Appendix A) as they align with AEMO's functions and address how it has done so in its corporate reporting.

Noting all statutory timeframes will prevail, Energy Ministers expect AEMO will otherwise seek to prioritise its tasks with regard to the SEP and according to AEMO's resources and capacity. The resulting work plan must be consulted with Energy Senior Officials and discussed with Energy Ministers.

The SEP's reporting and assessment framework and performance indicators map out a clear pathway for AEMO to self-assess, report on and receive feedback on performance, as outlined below:

- 1) AEMO develops performance indicators when appropriate, self-assesses and publicly reports via their Statement of Corporate Intent and annual report.
- 2) The ESB provides a high level assessment of market performance as part of their annual Health of the NEM report to Energy Ministers.
- 3) Based on the ESB's assessment, or any other matter as agreed to by Energy Ministers, the Energy Ministers may decide to provide AEMO with feedback on their performance.
- 4) Health of the NEM report informs the evolution of the SEP (over a 5-year cycle), highlighting progress against objectives and identification of current and emerging issues that might impact on work programs.

⁴ Section 7 of the Schedule – National Electricity Law in the *National Electricity Act 1996 (SA)*.

⁵ Section 23 of the Schedule – National Gas Law in the *National Gas Act 2008 (SA)*.

⁶ Section 13 of the Schedule – National Energy Retail Law of the *National Energy Retail Law Act 2011 (SA)*.

Should Energy Ministers deem it necessary to replace or amend the SEP or equivalent document, AEMO is expected to continue to self-assess, report on and receive feedback on its performance against the goals and objectives of such a document.

Statement of Corporate Intent and Annual Report

Under its Constitution, AEMO develops a Statement of Corporate Intent for each financial year in consultation with its members.

As mentioned above, Energy Ministers expect AEMO to ensure where possible, its future Statements of Corporate Intent under its Constitution will reflect this Statement of Role.

Recognising the importance of AEMO's statutory functions and its key role in the energy market governance structure, Energy Ministers also encourage AEMO, when developing any performance indicators, to consider the benefits of:

- including measurable and quantifiable indicators that can enable a meaningful assessment of AEMO's performance in meeting its statutory obligations and for assessing its contributions to achievement of the (relevant) SEP outcomes and objectives; and
- ensuring such indicators are informed by the SEP metrics and are focussed on outcomes rather than processes.

As stated in the SEP, Energy Ministers will use the annual *Health of the NEM report* to monitor progress of the market towards the SEP's objectives and outcomes. Energy Ministers may use the report to facilitate discussion with the AEMC on opportunities for improvement to support the SEP outcomes and objectives where necessary.

Publication of Statement of Expectations and Statement of Intent

AEMO's performance in each of its roles will be reported in or with the company's Annual Report under the Corporations Act. Energy Ministers expect AEMO will publish this Statement of Role, its current Statement of Corporate Intent and its latest Annual Report on its website.

AEMO is also required to release a bi-annual report against its achievement of the Statement of Intent.

Engagement and communication

Energy Ministers expect AEMO will work closely and collaboratively with the Energy Ministers, the ESB, the AEMC, the AER, Energy Consumers Australia (ECA) and jurisdictional governments and stakeholders.

Relationship with Energy Ministers

Energy Ministers expect AEMO will support them by providing:

- high quality and evidence-based advice on
 - developing issues relevant to Energy Minister's priorities; and
 - other issues as requested by the Energy Ministers

- clear communications on how AEMO's work program supports the SEP
- clear communications on any other relevant matters.

Relationship with energy market institutions

The relationships between AEMO, the ESB, AER, AEMC and other stakeholders are set out in relevant legislation and various Memoranda of Understanding (MOU) as set out in Schedule 2 of this document, which will govern AEMO's interaction with those bodies, along with the ESB terms of reference as approved by Energy Ministers.

AEMO is expected to interact with the ESB and other market institutions in accordance with the relevant legislative framework and any TOR or MOU in place.

Energy Ministers expect AEMO will work collaboratively with the ESB and other market bodies to pursue any whole of system performance objectives.

AEMO and the Energy Security Board

The AEMO Managing Director is a Member of the ESB.

Energy Ministers expect AEMO's Managing Director to actively participate in the ESB.

The ESB is a co-ordination and advisory body, which at a high level is intended to provide:

- a single, coherent voice providing advice to Energy Ministers to assist them provide leadership and strategic policy direction;
- ensure a co-ordinated and consistent approach to matters of strategic importance across the market bodies.

As a member of the ESB, and together with the AEMC and the AER, the AEMO Managing Director will:

- provide coordination and advice to Energy Ministers on energy security and reliability, including leading the ESB's responsibility to develop an annual report on the state of overall health of energy markets;
- in line with the statutory powers and functions of its members, co-ordinate activities with each other to achieve greater efficiency and timeliness and to reduce duplication;
- align and co-ordinate work programs to meet the outcomes expected by Energy Ministers, including the SEP as well as other strategic initiatives as approved from time to time by Energy Ministers;
- work collaboratively with other market bodies to pursue any whole of system performance objectives and to provide advice on strategic issues.

As stated in the SEP, Energy Ministers will use the *Health of the NEM report* to monitor progress of the market towards the SEPs objectives and outcomes. Energy Ministers may use the report to facilitate discussion with AEMO on opportunities for improvement to support the SEP outcomes and objectives where necessary.

Other stakeholder Engagement and Communication

AEMO will have open and consultative relationships with its stakeholders including industry, Energy Consumers Australia (ECA), consumer representatives and other Government stakeholder groups. It is important that stakeholders are encouraged, and provided sufficient opportunity, to

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participate and provide their perspectives to AEMO.

Given the increasingly decentralised energy market, in considering and designing stakeholder consultation processes, AEMO is encouraged to consider how it can better support a broad variety of stakeholders with varying resources to participate effectively in its processes.

Financial Reporting

Energy Ministers expect AEMO to adhere to all relevant financial management requirements in the Corporations Act.

Energy Ministers also expect AEMO to report to them every six months (at the end of each calendar and financial year) on progress against its annual work plan, budget, key priorities and emerging issues.

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Schedule 1

Energy Ministers expect AEMO to perform its functions in accordance with all relevant legislative requirements and agreements, including the

- *National Electricity Act 1996 (SA)*
- *National Electricity Regulations (SA)*
- National Electricity Rules
- *National Gas Act 2008 (SA)*
- *National Gas Regulations (SA)*
- National Gas Rules
- *National Energy Retail Law Act 2011(SA)*
- *National Energy Retail Regulations 2010 (SA)*
- National Energy Retail Rules
- *Electricity Industry Act 2004 (WA)*
- Electricity Industry (Wholesale Electricity Market) Regulations 2004

This list is not exhaustive and any relevant legislative requirements and agreements that define AEMO's function not mentioned in this document will also apply and are considered as part of AEMO's function by Energy Ministers.

Schedule 2

MOU between AEMO, Market Institutions and other stakeholders are as follows:

- Energy Security Board Terms of Reference approved by Energy Ministers
- The MOU between AEMO and AEMC, 2014
- The MOU between AEMO and AER, 2011
- The MOU between AEMO and ASIC, 2012
- National Electricity Market MOU on the use of emergency powers, 2016
- The MOU between the CER and AEMO, 2013

Appendix A - Strategic Energy Plan Outcomes and Objectives

Objective	Outcomes
Affordable energy and satisfied consumers	<p>Energy is increasingly affordable for all consumers, supported by adequate consumer protections and access to dispute resolution</p> <p>Consumers are empowered to manage their demand and can access distributed energy and energy efficiency solutions</p> <p>Consumers are able to easily identify and secure the best deal for their circumstances</p> <p>Vulnerable consumers are on suitable pricing plans, receiving concessions when needed, and can benefit from distributed energy and energy efficiency schemes</p>
Secure electricity and gas system	<p>Markets operate safely, securely and efficiently, under full range of operating conditions, with minimal intervention</p> <p>System planning and development is informed by clear and transparent rules</p>
Reliable and low emissions electricity and gas supply	<p>Electricity and gas sectors efficiently deliver at least their share of emissions reduction target/s while ensuring reliable supply</p> <p>Investors efficiently manage risk to support investment, operation, retirement and innovation decisions</p>
Effective development of open and competitive markets (where appropriate)	<p>Wholesale and retail markets are competitive and deliver efficient outcomes for consumers</p> <p>Deep, liquid and transparent financial markets for electricity and gas and related services</p> <p>Access to efficiently priced fuel and transport</p> <p>Innovation is incentivised and enables value from new technologies</p>
Efficient and timely investment in networks	<p>Investment solutions are optimal across all resources</p> <p>Efficient regulation of monopoly infrastructure</p> <p>Networks incentivised to be efficient platforms for energy services</p>
Strong but agile governance	<p>Governance arrangements support the achievement of the national energy objectives, and emerging issues are addressed in a coordinated, timely and consultative manner.</p>