

# Reform Delivery Committee

July 2022



# 1. Welcome

We acknowledge the Traditional Owners of country throughout Australia and recognise their continuing connection to land, waters and culture.

**We pay respect to their Elders past, present and emerging.**

# Agenda

#	Time	Topic	Presenter(s)
1	1.00-1.05pm	<b>Welcome</b>	Violette Mouchaileh (AEMO)
2	1.05-1.10pm	<b>Review of action items</b>	Peter Carruthers (AEMO)
3	1.10-2.40pm	<b>Business case</b> 3.1 Governance 3.2 Business Case 3.3 Pathway recommendation and next steps	All
4	2.40-2.50pm	<b>Roadmap Issues</b> 4.1 IESS and FTA Model 2 4.2 PFR Incentive Arrangements	Lee Brown (AEMO) Chris Muffett (AEMO)
5	2.50-2.55pm	<b>Plan for Q3</b>	Peter Carruthers (AEMO)
6	2.55-3.00pm	<b>Other business</b> 6.1 Engagement survey feedback	Violette Mouchaileh (AEMO)
7	3.00pm	<b>Thanks and close</b>	Violette Mouchaileh (AEMO)

*Please note that this meeting will be recorded for the purpose of compiling minutes.*

## 2. Review of Action Items

# Action items from prior meetings

Item #	Action	Responsibility	Status
5.1	Continuation of 4.1. Further exploration of opportunities and constraints with alternative roadmap formats	AEMO	In progress. Pending establishment of NEM2025 program PMO and project management tools to use.
5.2	Continuation of 4.2. Participant Impact Assessment	Committee members	All impact assessment received except from CEC. Closed.
5.3	Continuation of 4.3. Consider strategic issues in regulatory planning including regulatory timing change control process	AEMO, AEMC, ESB, AER	In progress. Postponed to August RDC meeting.
5.4	Continuation of 4.4. AEMO to discuss Roadmap interactions with reform implementation requirements from the NSW Roadmap with AEMO Services	AEMO	In progress. AEMO is following up with AEMO Services and NSW Government with preliminary impact assessment under way. Update to be provided at August RDC meeting.
5.5	New permanent members to be nominated by ENA (2) and AEC (1)	ENA, AEC	Closed. Welcome to new AEC rep Liz Gharghori from AGL.
5.6	AEMO perform second review of business case cost estimates in comparison to costs of recent reform implementations	AEMO	Closed. Discussed on item 3 of the agenda.
5.7	AEMO to define the Stage Gate approval process and the role of the PCF, EF and RDC in that process.	AEMO	Closed. Discussed on item 3 of the agenda.
5.8	AEMO to come back to the Committee with a revised consultation timeline for the business case	AEMO	Closed. Revised timeline was shared with the RDC on 22 June.

# 3. Business case

Discussion of proposed governance processes, key themes from stakeholder feedback and pathway recommendation

# Topics to cover

## 3.1 Governance

*RDC role varies depending on the stage of the process*

### 3.1.1 Preceding the Stage Gate Process - Managing Change and New Initiatives

- Regulatory/Policy Initiatives where Final Determinations not yet made

### 3.1.2 Stage Gate process

- Regulatory initiatives where Final Determinations made
- AEMO strategic/foundation Initiatives

### 3.1.3 Plan Prioritisation

## 3.2 Business Case Feedback

### 3.2.1 Costs

### 3.2.2 Deliverability Risks

### 3.2.3 Other Reforms

### 3.2.4 Legacy Systems

## 3.3 Pathway Recommendation



# 3.1.1 Preceding the Stage Gate Process – Managing Change and New Initiatives

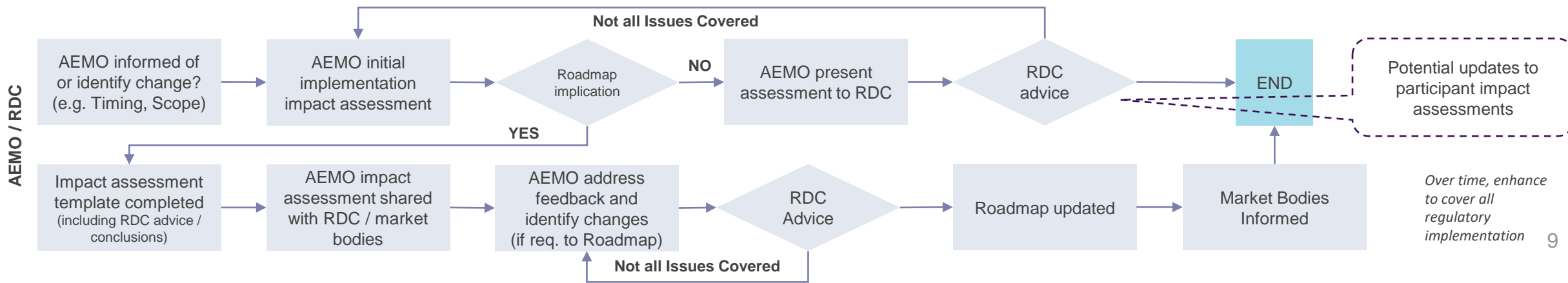
## Key themes in feedback

- At the last RDC meeting, members raised the question what process / steps are to be taken in the event there is a material change in an initiative impacting its implementation and the roadmap

## AEMO Response

- Material changes include new initiatives, policy/rules scope changes and/or timeline changes. Objective is to inform decision-makers of implementation impacts and provide advice on implementation approach/solutions.
- This process proposes a change management and impact assessment processes and template. Standing quarterly review process by RDC suggested.
- All changes assessed against a Baseline: Roadmap, Initiative Briefs, Cost estimate, Participant Impact Assessment

## CHANGE MANAGEMENT & IMPACT ASSESSMENT PROCESS



**CHANGE MANAGEMENT AND IMPACT ASSESSMENT**

DATE: \_\_\_\_\_

NEM2025 INITIATIVE: \_\_\_\_\_

SUBJECT: \_\_\_\_\_

COMPLETED BY: \_\_\_\_\_

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This Change Management and Impact Assessment provides a means for identification and documentation of potential implementation impacts associated with changes to key reform initiatives captured as part of the NEM2025 Reform Program and documented in the Regulatory & NEM2025 Implementation Roadmap

**IMPACT ASSESSMENT**

Question / Assessment	Response / Description
What is the nature of the change?	
When is the change to come into effect?	
What are the impacts to AEMO?	
What are the impacts to Participants?	
What are the impacts to Consumers?	
RDC Advice & Conclusions	
AEMC Advice & Conclusions	
AER Advice & Conclusions	

**RECOMMENDATIONS**

CHANGE REQUIRED TO ROADMAP	YES <input type="checkbox"/> NO <input type="checkbox"/>
CHANGE TO BE MADE	
IMPLICATION OF CHANGE	
APPROVED BY	
DATE	

# RDC member feedback on Stage Gate process

## Key themes in feedback – Stage Gate approval

- A stage gate approval process was generally considered an appropriate governance approach given the breadth of program and the various stages in which individual initiatives are at in their development
- However, stakeholders raised a number of questions / concerns in relation to the approval process itself including:
  - What is the role of the RDC in the process?
  - What is being approved? and
  - Who has decision making responsibilities?
- One feedback stated the stage gate approach does not give industry opportunity to challenge or reduce the cost or scope of the work package
- Stakeholders flagged a preference to be more involved in the decision-making process for scope, investments and financial oversight
  - This extended to the provision of voting rights to RDC/Executive Forum for expenditure related to AEMO Strategic / Foundational initiatives

## Key themes in feedback – Initial Business Case Approval

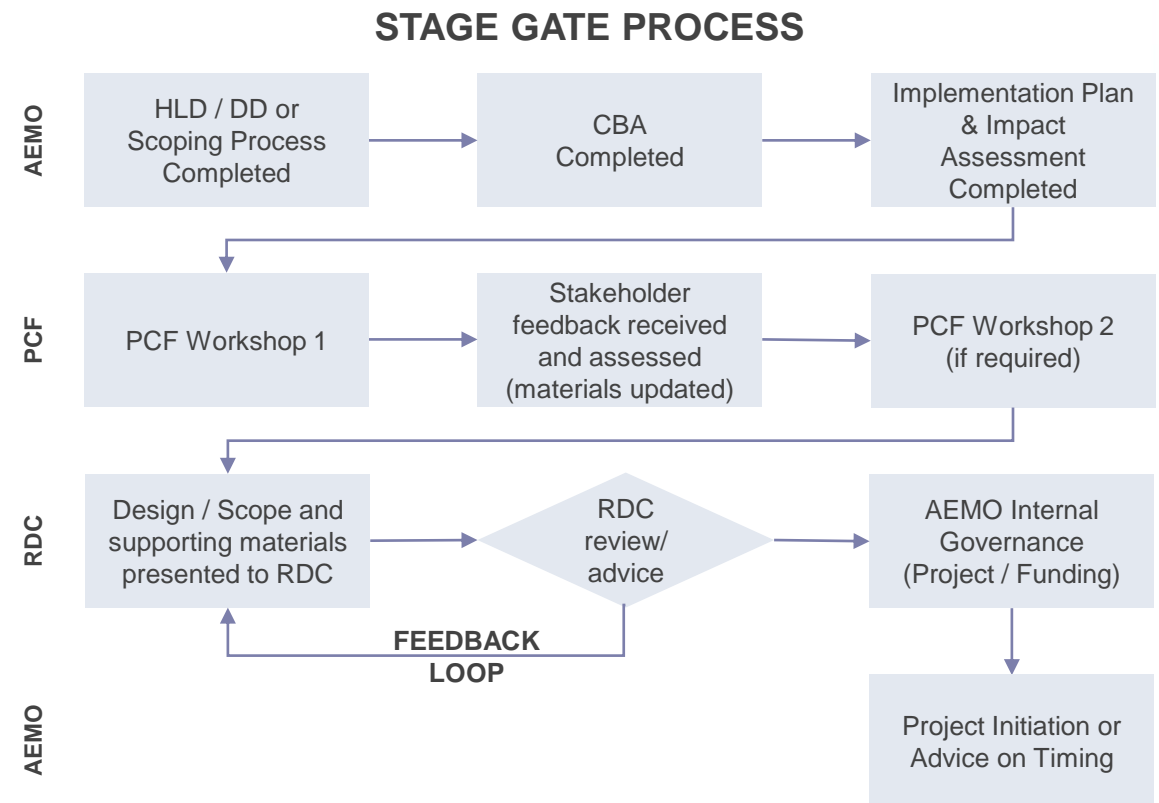
- Stakeholders raised concerns that AEMO was seeking approval to implement all initiatives documented within the business case as part of Stage Gate 1
- Stakeholders did not support this approach noting:
  - Many of these reforms are uncertain in their policy design
  - Potential for specific reforms to proceed at all or in the form in which they are currently proposed
  - Benefits from some reforms have not been clearly articulated
- Stakeholders suggested stage gate 1 should be broken into more stages

## 3.1.2 Stage Gate process - Outline

- Business case estimates set out a funding envelope
  - Required for a holistic view and to help identify a preferred implementation pathway
  - Does not represent a funding commitment request
  - AEMO funding will be committed through a progressive draw-down process
  - Change to the funding envelope is inevitable as the NEM2025 reform and policy scope changes.
    - Change management mechanism required, as set out on the previous slide, to inform decision-makers of implementation impacts and provide advice on implementation approach/solutions.
- Stage Gate process
  - Regulatory / policy reform initiatives are mandatory once a Final Determination (or equivalent legal obligation) is made
    - Cost/benefit completed by the rule/policy-maker and precedes the Final Determination. Prior to the Final Determination, RDC input has a key role to inform implementation approach/timing – as set out on the previous slide.
    - At the time of Final Determination, the Rules decision becomes an obligation for all relevant parties and the objective becomes effective mobilisation and delivery. The Stage Gate process takes effect and is focused on effective mobilisation and delivery.
  - AEMO strategic/pre-requisite initiatives require a different Stage Gate process
    - Cost/benefit and industry consultation is required
    - A proposed process is set out on the subsequent slide
  - Initiatives that have industry-wide impact but are not led by AEMO may require a refined process to co-ordinate all parties

# Proposed stage gate process for AEMO Strategic/Foundation Initiatives

- Initiatives in this category include:
  - Identity & Data bundle
  - Dispatch Target State
  - FRC Target State
- This process provides for engagement with industry stakeholders, via the PCF, to confirm critical elements of the initiatives including:
  - High Level Design (HLD), Detailed Design (DD) or Scope
  - Implementation Plan and Impact Assessment (cost/benefit)
- Having completed this engagement, AEMO would seek **RDC advice in relation to whether/when and how** the initiative proceeds
- AEMO's objective is for the RDC to operate as a collaborative forum on implementation, and therefore a consensus position will be sought
- RDC views will inform the AEMO internal governance process



# Stage Gate Proposal – Initial Plan

Initial plan – flexibility to manage changes in timing will be required

Stage Gate	Name	Comment	Timing
-	Initial Business Case	<ul style="list-style-type: none"> <li>• Presents holistic view and sets out overall budgetary envelope</li> <li>• No funding commitment</li> <li>• Used to inform decision around Strategic vs Reg-Led Pathway</li> </ul>	3Q2022
1	Immediate Reforms	<ul style="list-style-type: none"> <li>• Mandatory Initiatives for 2022 Rules Determinations <ul style="list-style-type: none"> <li>• IESS, FFR, MT-PASA, PFR and OSM</li> </ul> </li> <li>• RDC role: Rules development: advice on implementation approach/timing for overall roadmap</li> <li>• RDC role: Implementation mobilisation advice once Final Determination made</li> </ul>	3Q2022
2	Capacity Market & Congestion Management model	<ul style="list-style-type: none"> <li>• Stage Gate 2A: Capacity Mechanism</li> <li>• Stage Gate 2B: Congestion Management Model</li> <li>• Separated due to possible different policy timelines for each initiative, and likely short timeframes for CM.</li> <li>• RDC role: Policy development: advice on implementation approach/timing for overall roadmap</li> <li>• RDC role: Final Determination (or equivalent): Implementation mobilisation advice</li> </ul>	Subject to Policy-makers timing
3	Strategic & Foundation Pre-Requisites	<ul style="list-style-type: none"> <li>• Stage Gate 3A: Identity &amp; Data bundle: IDA, IDX (noting pre-existing participant consultation should be leveraged), CoMASTR and Portal Consolidation</li> <li>• Stage Gate 3B: Dispatch Bundle (including dispatch, constraints and bids/offers target state)</li> <li>• Stage Gate 3C: FRC target state</li> <li>• Integrated design, plan and cost/benefit to be prepared, industry engagement to be conducted</li> <li>• RDC role: Advisory on whether/when and how the initiative proceeds</li> </ul>	1Q2023  3Q2022 1Q2023

# Stage Gate Proposal – Initial Plan

Stage Gate	Name	Comment	Timing
4	DER Flexible Demand & Marketplace	<ul style="list-style-type: none"> <li>• Stage Gate 4: Turn-up services, DOEs, DER Data Hub &amp; Registry services, Distribution/local network services and potentially DER Operational Tools</li> <li>• Scope is subject to change once Policy/Trials complete (impacting budget, timeline and responsibilities).</li> <li>• Co-ordinated approach with DNSPs may be valuable, to ensure roles are clear and scope for each role is defined</li> <li>• RDC role Policy development: advice on implementation approach/timing for overall roadmap</li> <li>• RDC role Final Determination (or equivalent): Implementation mobilisation advice</li> </ul>	Indicative Mid-2023, subject to trials & policy development
5	Next Reforms	<ul style="list-style-type: none"> <li>• Mandatory initiatives for 2023 Rules Determinations <ul style="list-style-type: none"> <li>• FTA2, Scheduled Lite &amp; SCADA Lite, OR</li> </ul> </li> <li>• RDC role Policy development: advice on implementation approach/timing for overall roadmap</li> <li>• RDC role Final Determination (or equivalent): Implementation mobilisation advice</li> </ul>	Indicative mid/late 2023, subject to Rules timing
6	Data Strategy	<ul style="list-style-type: none"> <li>• Data Services, Bill Transparency, Electric Vehicles, Network Visibility</li> <li>• RDC once high-level Policy work complete: advice on implementation approach/timing for overall roadmap</li> <li>• RDC role Final Determination (or equivalent): Implementation mobilisation advice</li> </ul>	Indicative Mid-2023 (subject to policy development)

# 3.1.3 NEM2025 implementation plan prioritisation

## Key themes in feedback

- It has been suggested the NEM2025 Program be paused due in part to one or all of the following matters:
  - Recent market events and the challenges facing participants at this time
  - Pending decisions on high impact reforms including Capacity Mechanism and Congestion Management Model
  - Significant uncertainty in scope and/or those initiatives that remain subject of trials, AEMC rule change processes
  - Further interrogation of AEMO strategic and foundational initiatives

## AEMO response

- At a macro level AEMO is guided by Ministerial communique of 8 June, indicating:
  - Capacity Mechanism prioritisation
  - No other changes to overall NEM2025 reform priorities flagged
- Other initiatives under the ESS pathway remain the subject of AEMC rule change processes and the timing set by the AEMC.
- AEMO is not aware of any proposed changes to the policy development / trials under the Integrated DER and Flexible Demand pathway.
- If the intent of the feedback is to seek a pause on the overall reform program, then the RDC is not the right forum to make any such recommendations. However, it is the right forum to inform implementation timing at the initiative level based on the NEM2025 Implementation Roadmap and implementation considerations.
- The general theme of uncertainty is noted. Change Management process and Stage Gate process as outlined on the previous slides will support managing this uncertainty.

# 3.2.1 Business Case Feedback – Cost Estimates

## Key themes in feedback

- Stakeholders acknowledged the NEM2025 Program will require significant funding to implement and stressed the importance that expenditure is prudent and efficient, recognising that costs will be ultimately met by electricity users
- Stakeholders noted the costs in the business case do not reflect the overall costs for the market and limited to AEMO only
- Stakeholders emphasised the importance of completing a CBA prior to implementing AEMO's own strategic / foundation initiatives
- Stakeholders raised concerns the cost estimates may understate the actual costs of eventual programme delivery particularly in light of:
  - Inflation, a tight labour market and disrupted supply chains,
  - Doubts a 30% contingency was sufficient or correct
  - Recent comparators including 5MS
- Stakeholders noted the need for caution in the allocation of costs as AEMO fees given the different risks to recovery across the supply chain

## AEMO response

- Propose to increase the contingency window to +/-40% on the following basis:
  - Responding to participant feedback and concerns
  - Recognising degree of uncertainty in a number of initiatives which are still in policy or rules development
  - Recognising rising costs and a tight labour market
  - Recognising learnings from 5MS in relation to costs for major reform projects.
- AEMO notes the following in relation to the cost estimates:
  - Costs have been assessed on the basis of the known scope of initiatives
  - Uncertainty in scope is covered by providing for a wider contingency window to the overall program
  - There is no basis to artificially inflate the costs of initiatives or the program as a whole beyond the contingency
  - AEMO proposal is to present the estimates as a range: estimates mid-point to high-point
  - Change inevitable as scope changes through policy/rules process. Managed through change management process.
- Cost estimating process now undertaken twice, with similar results
  - Late-2021, undertaken by AEMO staff with independent EY review for "reasonableness"
  - Early-2022, led by EY as part of the Business Case process and using EY methodology and projects database, with process to reconcile against AEMO project experiences
  - Note these are both top-down estimating processes



## 3.2.2 Deliverability risks with the NEM2025 Program

### Key themes in feedback

- Stakeholders expressed concerns regarding the deliverability risks associated with the NEM2025 Program suggesting:
  - Challenges with the availability of resources to undertake all the projects identified, particularly as AEMO and stakeholders draw from the same pool
  - Risk in delivery supersedes the benefits in the current environment of tight labour market and disrupted supply chains
  - Timeframes are too compressed and likely not achievable
  - Inclusion of AEMO IT projects concurrently presents further challenges and strain on resource availability
  - Risks of delivery need to be covered more in the business case
- Stakeholders did acknowledge / welcomed the shift to a batched approach to reform implementation provided this approach is supported with strong governance frameworks

### AEMO response

- AEMO agree with stakeholders that there are a number of program risks and delivery challenges that need to be managed over the life of the NEM2025 program
- Both pathway options create significant demands upon AEMO and industry for delivery that will need to be managed accordingly
- AEMO have expanded on these risks in the business case and will develop and maintain a risk register (covering deliverability and other risks) using AEMO's EMP approach
- RDC will play a key role in this process through understanding impacts, grouping, sequencing and prioritisation of initiatives
- The stage gate approval process also intends to manage uncertainty by establishing check-points

## 3.2.3 Other reforms – Capacity Mechanism and Congestion Management Model

### Key themes in feedback

- Stakeholders raised concerns about continuing with the NEM2025 Implementation Roadmap when high impact reforms such as CM and CMM have not been agreed on
- Stakeholders suggest CM and CMM should be costed as early as possible
- Stakeholders noted the need to identify any foundational system changes that would be prudent/efficient to make in stage gate 1 to support a potential CM

### AEMO response

- AEMO has included the capacity mechanism and congestion management model into version 2 of the roadmap
  - Placeholders to be updated as further information on design / scope becomes available
  - A specific stage gate has also been proposed to cover these initiatives
- AEMO note the CM is now seen as more of a priority following Minister's meeting in June
  - Implementation impacts are being considered as the ESB progress through their detailed design of the mechanism
  - Indicative dates require a decision by Q2 2023 with readiness for first auction to be conducted July 2024
  - AEMO action to define an implementation planning timeline and bring to future RDC for discussion
- Order of magnitude costing underway for Capacity Mechanism

## 3.2.4 Clarification regarding legacy systems

### Key themes in feedback

- Stakeholders sought clarification on which AEMO legacy systems are proposed for replacement under the Business Case

### AEMO response

- Significant recent internal AEMO effort undertaken on reviewing current state architecture and defining future state architecture.
- AEMO's IT architecture team is looking to brief stakeholders on their findings and approach, during August. Specific time and forum to be determined.
- Potential replacement of legacy systems (e.g. Dispatch target state, FRC target state) will be subject to the Stage Gate approval process, stakeholders will have the opportunity to understand the specifics through this process

# 3.3 Pathway Recommendation

*For the NEM2025 Implementation Pathway, AEMO recommends:*

- A Hybrid Pathway complemented by a stage gate process is proposed
- The Regulatory-Led Pathway is proposed as an MVP (Minimum Viable Product), ensuring mandatory reforms are delivered in a timely way
- The NEM2025 budget envelope includes the full scope of the Strategic Pathway, but draw-down/commitment is subject to a progressive commitment process informed by Regulatory Determinations and the Stage Gate process
- The stage-gate process is undertaken for all Initiatives that are part of NEM2025 scope, to manage uncertainty and provide for appropriate implementation disciplines. The Stage Gate process for AEMO strategic/foundation initiatives will include cost benefit analysis and industry consultation.
- The Implementation Pathway is managed by appropriate supporting processes:
  - NEM2025 Implementation Roadmap is managed through a Change Management process, to manage and advise on impacts of new initiatives being added to the reform scope or changes in scope/timing of existing proposed initiatives
  - An agreed Stage Gate process for AEMO strategic/foundation initiatives and project mobilisation for reform initiatives

## Request of the RDC

That the RDC support the adoption of the Hybrid Pathway as a baseline plan for the implementation of NEM2025 initiatives which will be supported by a:

- change management process to manage and advise on impacts of new initiatives being added to the reform scope or changes in scope/timing of existing proposed initiatives
- stage gate approach which includes a cost/benefit analysis and industry consultation for AEMO strategic/foundation initiatives
- progressive investment commitment process and draw down of funds that will be informed by Regulatory Determinations and the Stage Gate process.

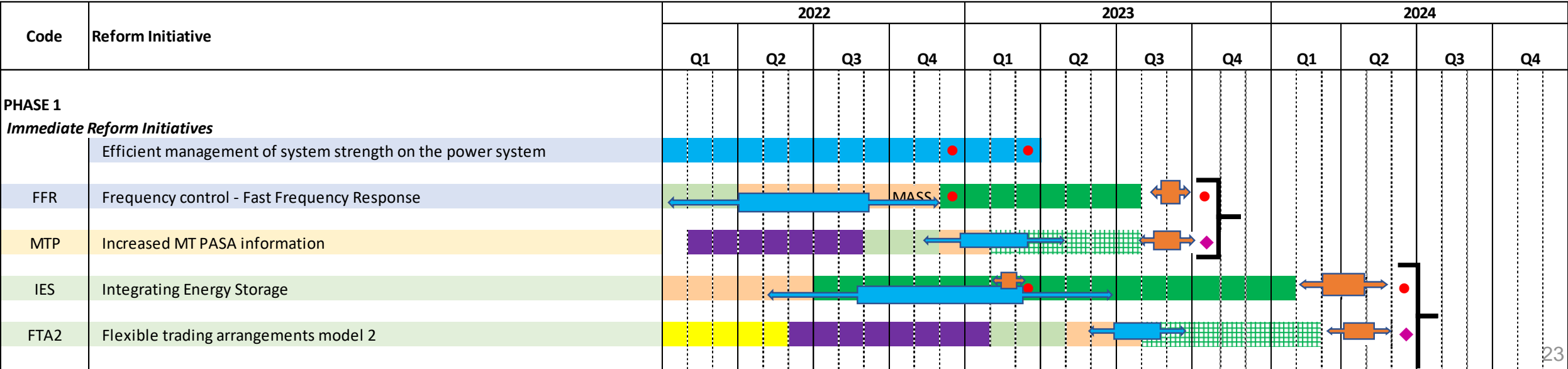
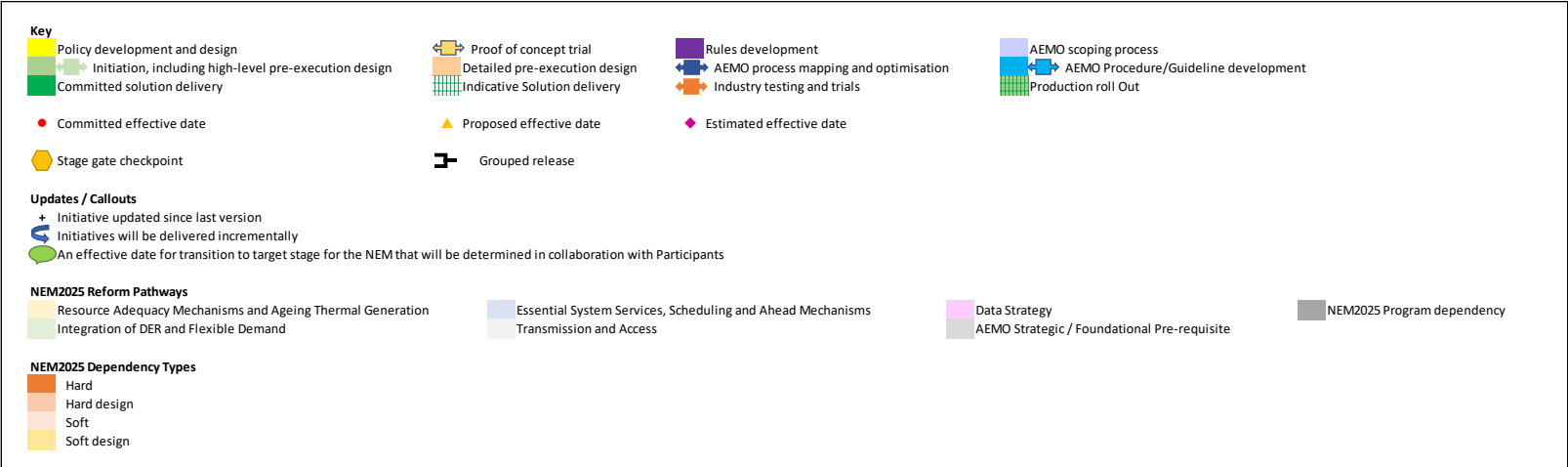
# Next Steps

- Release updated Business Case and consolidated Implementation Roadmap to industry stakeholders
- Brief industry and consumer groups
  - Conduct Regulatory Implementation Roadmap forum to review consolidated roadmap
  - Stand-up the NEM2025 PCF
  - AEMO Consumer Forum
- Watching brief on CM/CMM policy developments for Stage Gate approvals

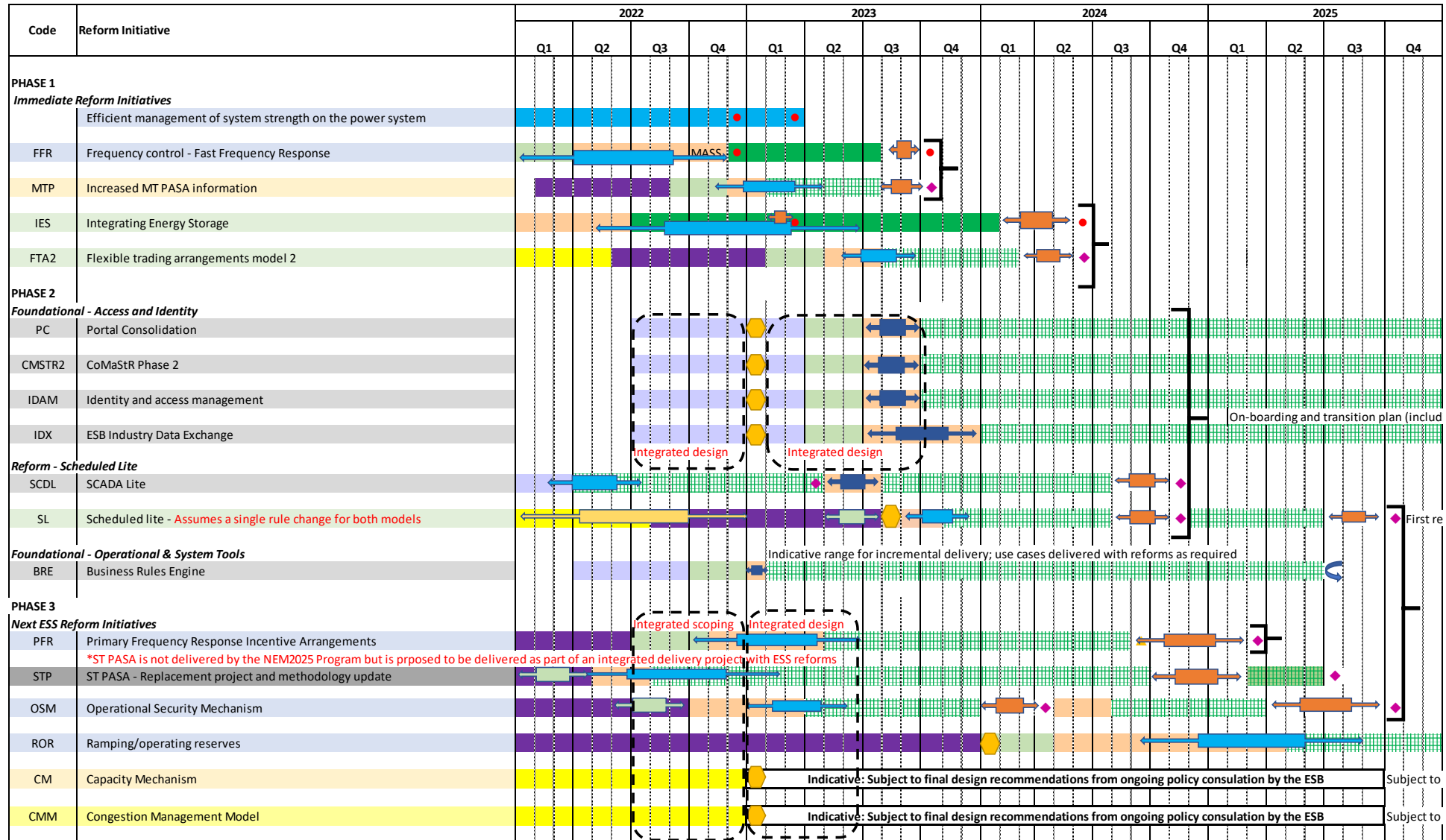
# 4. Roadmap Issues

Discussion of matters that may have implications for the Roadmap

# IESS & FTA Model 2



# PFR Incentive Arrangements





## 5. Plan for Q3

# Publication process and plan for Q3



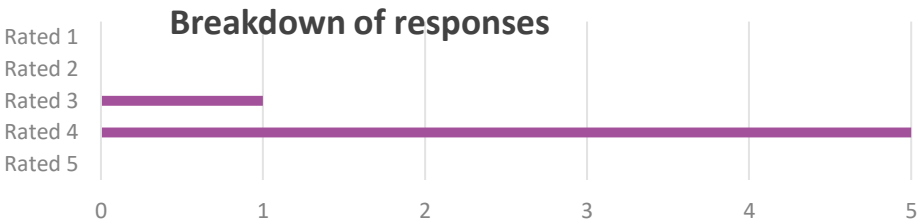
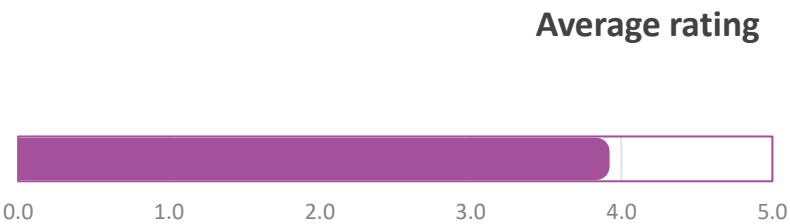
## 6. Other business

# Q3 2022 RDC Survey results

Please rate how satisfied you are with the Reform Delivery Committee

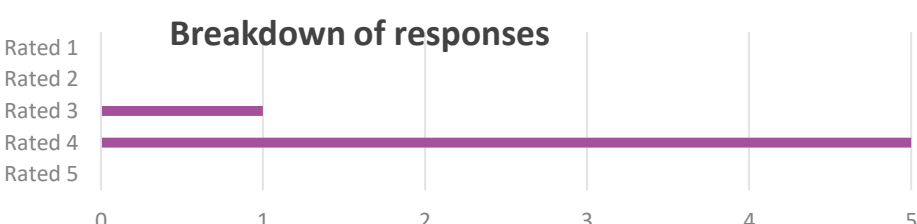
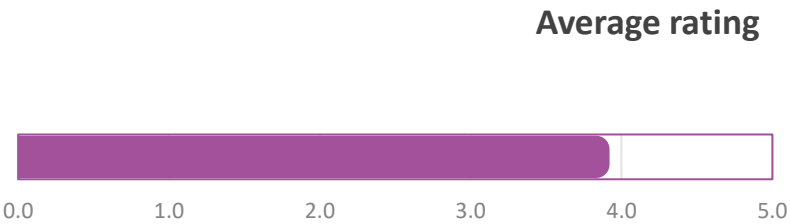
**Overall satisfaction:** 3.8

Please rate how satisfied you are with the Reform Delivery Committee  
1 being less satisfied and 5 being highly satisfied



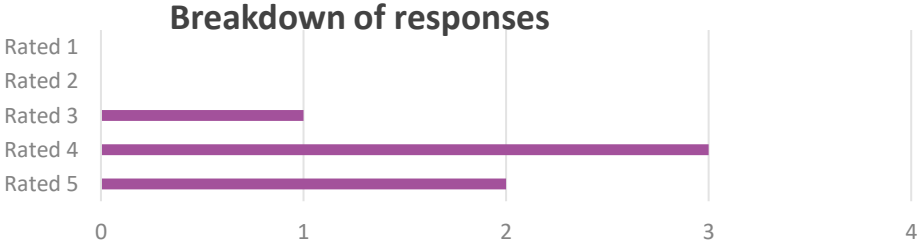
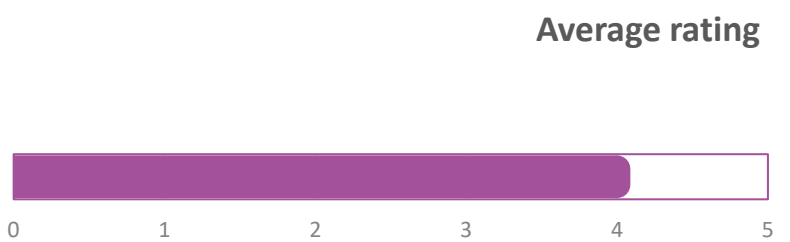
**Engagement:** 3.8

Please rate how satisfied you are with the incorporation of ideas and suggestions from the committee  
1 being less satisfied and 5 being highly satisfied



**Committee management:** 4.2

Please rate the management and operation of the Committee  
1 being less satisfied and 5 being highly satisfied



# 7. Thanks and close



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