



Governance of retail market procedures

Final rule determination

The Australian Energy Market Commission (Commission) has made a final determination not to make a rule in relation to the *Governance of retail market procedures* rule change request.

The Commission's determination

The Australian Energy Market Operator (AEMO) requested a rule change to rationalise the development and management of all procedures required under Chapter 7 of the National Electricity Rules (rules). This would merge the process for making business-to-business (B2B) procedures, currently managed by the Information Exchange Committee (IEC), with AEMO's process for making all other procedures under these rules. The resulting integrated process would be specified in AEMO's procedures rather than the rules, and would be administered by AEMO.

The Commission has made a final determination in relation to this rule change request. It has determined not to make a rule.

Background

There are currently two processes for the development and management of procedures required under Chapter 7 of the rules. All procedures, except for those classed as B2B procedures, are developed and managed by AEMO. The rules do not prescribe the process by which AEMO must develop and manage these procedures. To assist with this process, and at its own discretion, AEMO established an industry consultative body, the Retail Market Executive Committee (RMEC). This body provides it with non-binding technical advice on proposed non-B2B procedures. The activities and membership of the RMEC have, until recently, mirrored that of the IEC.

B2B procedures are developed and managed by the IEC. This is an independent industry committee established pursuant to, and operating under, Chapter 7 of the rules. Under these rules AEMO provides administrative and secretariat support. Once a B2B procedure is recommended by the IEC AEMO must, except in limited circumstances, make that procedure.

AEMO, as the rule proponent, has indicated that the current B2B framework is problematic in that it:

- leads to uncertainty as to whether the IEC or AEMO has accountability for B2B procedures, as both have a distinct role in the making of them;
- is inefficient due to the duplication of process and resources; and
- is inflexible due to its specification, and the level of prescription, in the rules. It is therefore unable to respond, in a timely fashion, to changes in technology and in the market.

Reasons for the final determination

The Commission is not satisfied that the proposal would better promote the National Electricity Objective (NEO) than the current arrangements. This is because:

- *The Commission considers that it is appropriate for the decision making process for B2B procedures to remain unchanged, at this time.*

B2B procedures relate to communications between participants for the purpose of carrying out their day-to-day operations, and do not involve AEMO or otherwise directly affect the wholesale market or settlement processes. The management of high

volumes of these communications are an important back-office function and changes to these procedures can significantly affect business costs. In addition the direct costs of the IEC, and the costs associated with implementing changes in accordance with the B2B procedures, are ultimately borne by the participants themselves. The Commission considers that there are therefore strong incentives on industry to make efficient and responsible decisions in this area, which are aligned to the interests of consumers.

The Commission does not share the rule proponent's concerns regarding accountability for making B2B procedures: the rules set out that both the IEC and AEMO have concurrent and interdependent roles in this process and the Commission considers that these arrangements represent an expedient way of giving effect to the IEC's independent functions.

There is also adequate provision in the rules for AEMO to object to the IEC's recommendations in particular circumstances. The Commission is not persuaded that any additional safeguards are currently necessary.

- *Some duplication of process is therefore an unavoidable consequence of retaining current arrangements.*

The Commission does not consider that there is any compelling evidence to suggest that the trade-off between administrative efficiency and decision making has changed significantly since the introduction of B2B arrangements in 2006.

- *The rules make adequate provision for modifications to the B2B arrangements in the future, through the rule change process.*

Given the Commission's conclusions above, continued specification of the process for making B2B procedures in the rules is therefore appropriate to provide regulatory certainty and transparency of process to industry. This outcome allows for future changes to be made to the B2B framework, by way of the rule change process.

The Commission was cognisant of the recent decision by AEMO to separate the activities of the RMEC from the IEC, but did not consider this matter to be directly relevant to the rules. While the rules are specific in the establishment of the IEC and its operation under the specified framework, the Commission notes that they do not require AEMO to constitute a similar committee such as the RMEC. AEMO has discretion as to whether to constitute such a group for its own consultative purposes and, if so, how it will be operated and the scope of the group's role in the process.

Future opportunities to review the B2B arrangements

The Commission's decision to retain the existing B2B governance arrangements at this time does not preclude changes being made in the future. The Commission notes that modifications to the Chapter 7 rules are likely to be required to meet the expected market developments that were recommended in the *Power of choice* review. Details of the various projects, including background information and their current status, are available from the AEMC's website under the *Power of Choice* tab on the homepage.

As these projects may ultimately have a significant impact on the structure and functions of the IEC, there is efficacy in aligning the timing and consideration of more substantial proposals in relation to the B2B arrangements within a more detailed framework for change.

It is also anticipated that these processes will provide stakeholders with extended opportunities for engagement and input through the submission process as well as through stakeholder workshops. Currently the project with the most relevance to the consideration of B2B arrangements is the *Expanding competition in metering and related services* rule change request. Details of stakeholder workshops, which commenced in June and are proposed to run until September, may be downloaded from the project's webpage on the AEMC's website.

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