

04 February 2021

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Australian Energy Market Operator

Submitted via email [kevin.ly@aemo.com.au]

Dear Mr. Ly,

AEMO Draft Report and Determination – Electricity Fee Structures

Energy Networks Australia welcomes the opportunity to provide a submission to the Australian Energy Market Operator's (AEMO) Draft Report and Determination on electricity fee structures to apply to Participant fees from 1 July 2021 (**Draft Report**).¹

Energy Networks Australia (ENA) is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

ENA, along with the majority of stakeholders, does not support AEMO's proposed approach to the allocation of core National Electricity Market (NEM) fees. AEMO's rationale for changing its approach is significantly flawed.

Allocations of fees should be transparent and reliable and should enable the charged party to pass on those costs appropriately and efficiently, without significant administrative burden. ENA members do not consider that the draft proposal achieves this. Instead, the approach risks imposing inefficient administration costs on to end-use consumers with little justification and transparency regarding the detailed cost allocation.

¹ Australian Energy Market Operator, *Draft Report and Determination: Electricity Fee Structures*, November 2020.

1 Charging network service providers

1.1 Stakeholder feedback

As noted by AEMO in the Draft Report, the majority of stakeholders do not support extending the core NEM fee to Network Service Providers (**NSPs**). Of the ten submissions to AEMO's Consultation Paper that addressed the issue, eight submissions did not support the extension of NEM fee charges to NSPs, citing:

- » The **adverse impact on end-use consumers** – NSPs do not have a direct contractual relationship with end-use customers, and therefore extending the core NEM fee to NSPs will introduce inefficient administration costs that will be passed on to end-use consumers. This was highlighted by stakeholders across the supply chain, including electricity retailers.
- » The **discrepancy with the current regulatory framework** – Due to the regulatory framework and existing network determination cycles, NSPs will not have the ability to recover these costs from the commencement of the new structure. To impose new costs on participants (in order to provide full cost recovery for AEMO) who do not then have the ability to recover these costs under the current framework is not considered to be an equitable outcome that is in the long-term interests of consumers, or consistent with the Revenue and Pricing Principles of the National Electricity Law.

1.2 AEMO's assessment

In Table 9 of the Draft Report, AEMO considers two options – introduce charging for NSPs or retain the status quo of no charges to NSPs – and assesses these options against the National Electricity Objective (**NEO**) and the following principles:

- » Simplicity
- » Reflective of involvement
- » Non-discriminatory
- » Recovery of AEMO'S budgeted requirements on a specified basis

ENA does not agree with the assessment of the principles and analysis presented in Table 9.

In AEMO's analytical framework, the NEO is listed as a principle, alongside which a range of fee structure principles are weighed. This approach is inconsistent with the role and legislatively intended function of the NEO in Australia's energy framework. The NEO is not a principle against which considerations of 'simplicity' of the recovery of AEMO's budgeted requirements are weighed. Rather, AEMO's cost recovery principles should properly be designed and applied with a view to promoting the NEO. This would be consistent with the approach of other market institutions (for example, the Australian Energy Regulator in reaching a network revenue determination, or the Australian Energy Market Commission in considering the making of a rule) and AEMO has not provided any acceptable reasons explaining why it is downgrading the importance of the NEO.

Extending the core NEM fees to NSPs does not accord with the simplicity principle and should be classified as such in AEMO's deliberations. Levying fees to participants closest in the supply chain to customers is more efficient than levying costs on NSPs who are one-step removed. This allocation also further increases the complexity of NSP charging arrangements.

Fundamentally, the creation of additional and inefficient administrative costs that will be passed on to end-use customers is not in the long-term interests of customers, a requirement of the NEO.

AEMO's comments on the principles assessment in Table 9 highlights no 'pros' of retaining the status quo approach instead selecting to focus on its perceived 'con'. Yet the cons of introducing the charging of NSPs are disregarded in favour of highlighting the 'reflective of involvement' pro. ENA is concerned about the imbalanced assessment that has been emphasised to stakeholders. Where an existing approach is simple to apply and does not involve the creation of additional administrations and process costs, a reasonable cost-benefit assessment approach would give weight to the stability of approach as an advantage.

ENA is of the strong view that the allocation of fees should enable the charged party to pass on those costs appropriately and efficiently, without significant administrative burden.

1.3 AEMO draft proposal

In conflict with the majority of stakeholder feedback to its Consultation Paper, AEMO has selected to extend the core NEM fee to NSPs on the basis of the reflective of involvement principle. This is justified by AEMO on the basis of its initial internal staff survey that indicates "TNSPs' material involvement and some level of involvement from DNSPs with AEMO's revenue requirements for operational activities".²

After the release of the Draft Report, AEMO released its internal staff survey result of allocation to the core NEM function.³ AEMO staff assessed via an internal survey that:

- » Staff allocated 17.5% of their time (interaction and involvement) to TNSPs, and
- » Staff allocated 3% of their time (interaction and involvement) to DNSPs.

Due to the changing energy landscape, there has been an increase in complexity and NSP interaction with AEMO. However, this ensures that the network can be operated in the most efficient manner for the benefit of system of the whole, with benefits flowing to generators and end-use customers.

AEMO surveyed 23 of its Senior Managers through its internal cost allocation survey. There is no information available, however, to stakeholders on the detailed design and methodology of the survey. For example, there is often a two-way flow of work between AEMO and NSPs, however it is unclear as to how this has been taken into account. The allocation of fees, and the introduction of material changes, must be made on the basis of a transparent and replicable cost allocation methodology, which is absent from this review.

AEMO's Draft Report states that:⁴

Despite several uncertain administrative arrangements and timing and transitional issues associated with charging TNSPs and DNSPs Participant Fees under the Rules, these issues and uncertainties are not strong considerations in deciding whether to allocate costs and charge Participant Fees to NSPs as part of AEMO's determination.

ENA strongly disagrees with AEMO's conclusion that these issues are not strong considerations in deciding whether to allocate costs to NSPs. To address the issues associated with the proposal to extend the core NEM fee to NSPs will involve material resources and costs on not only for NSPs but also for

² Australian Energy Market Operator, *Draft Report and Determination: Electricity Fee Structures*, November 2020, page 25.

³ Australian Energy Market Operator, *Survey Result of Allocation to the core NEM Function*, 17 December 2020.

⁴ Australian Energy Market Operator, *Draft Report and Determination: Electricity Fee Structures*, November 2020, page 25.

market bodies such as the Australian Energy Market Commission. These costs will ultimately be borne by end-use consumers, which seems disproportionate to the outcomes of AEMO's reflective of involvement survey results and the transparency and replicability of these results.

2 AEMO Budget and Finance Committee

2.1 AEMO proposal

As highlighted in ENA's submission to AEMO's Consultation Paper⁵, this consultation only applies to the structure of AEMO's participant fees.

The actual amount charged for each fee is determined on an annual basis via the AEMO budgeting process. The recent Australian Energy Council (AEC)-ENA commissioned CEPA report *Governance and regulation of market/system operators*⁶ found that relative to organisations with similar roles, AEMO's members currently have limited input into developing AEMO's business plan and its budget.

Therefore, ENA welcomes and strongly supports AEMO's proposal to introduce a Budget and Finance Committee (**the Committee**) following its 2020 review of stakeholder engagement.⁷ Designed suitably, the Committee will materially increase transparency and accountability with respect to AEMO's budget and strategic planning purposes.

2.2 Key design recommendations

Building on AEMO's proposal, ENA and the AEC jointly commissioned CEPA to further consider design options for the detailed Committee arrangements.⁸ As outlined in **Figure 1** below, CEPA has proposed several recommendations for further consideration. In particular, CEPA found that the design should support the Committee to provide meaningful oversight of budgets and priorities, noting the impact of these on both costs and service levels for end-use consumers.

⁵ Energy Networks Australia, *ENA Submission – AEMO Consultation Paper – Structure of Participant fees in AEMO's electricity markets*, 23 September 2020.

⁶ CEPA, *Governance and regulation of market/system operators*, 9 September 2020.

⁷ Australian Energy Market Operator, *Renewing AEMO's Engagement Model – Response Paper*, November 2020.

⁸ Cambridge Economic Policy Associates (CEPA), *AEMO Budget and Finance Committee*, 25 January 2021.

Figure 1: AEMO Budget and Finance Committee – CEPA key design elements and recommendations

1. Scope	2. Composition	3. Standing	4. Process	5. Communication
<ul style="list-style-type: none"> •1.1 The Committee's purpose should be to provide meaningful stakeholder oversight of AEMO's budget, fee and strategic decision making processes. •1.2 To support its purpose, the Committee's review should also encompass major expenditure decisions that arise outside the budget cycle, and ongoing performance against budgets and strategic plans. 	<ul style="list-style-type: none"> • 2.1 The Committee should reflect the full breadth of AEMO's stakeholders, including its Members and end customers. • 2.2 8-10 members may better reflect AEMO's stakeholders, without becoming unwieldy. •2.3 Stakeholders should be able to nominate their representatives, subject to meeting skill requirements. • 2.4 AEMO Board representation is desirable. •2.5 Tenure of 3 years for non-AEMO Committee members may be appropriate. 	<ul style="list-style-type: none"> •3.1 AEMO should consult with stakeholders to develop and publish a Committee procedure. The procedure should include a clear process for changing the Committee arrangements. • 3.2 Interactions between the Board and Committee (but not the detailed Committee arrangements) could be reflected in AEMO's Board Charter. 	<ul style="list-style-type: none"> • 4.1 Committee meetings should be held at least quarterly. •4.2 The Committee procedure should support Committee members to obtain the information needed to fulfil their role effectively. •4.3 The Committee should aim to reach a consensus view of the non-AEMO members on recommendations. Differing views should also be communicated to AEMO's Board. 	<ul style="list-style-type: none"> •5.1 The Committee would provide a formal written recommendation to AEMO's Board on the matters within its scope. •5.2 The Committee procedure should require AEMO's Board to respond if it disagrees with the recommendations of the Committee. •5.3 Committee minutes, recommendations and Board responses should be publicly available, subject to confidentiality.

Source: CEPA

Further information can be found in CEPA's report at **Appendix A** of this submission. ENA welcomes further engagement with AEMO and stakeholders, including customer representatives, as the Committee design is further considered in 2021.

As outlined above, ENA has significant concerns with the Draft Report and would welcome the opportunity to engage further with AEMO on this issue. To facilitate this, please contact Lucy Moon, Head of Regulation, at lmooon@energynetworks.com.au.

Yours sincerely,



Andrew Dillon
Chief Executive Officer

APPENDIX A | CEPA Report - AEMO Budget and Finance Committee

AEMO Budget and Finance Committee

Australian Energy Council and Energy Networks Australia

25 January 2021



FINAL REPORT

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EXECUTIVE SUMMARY

Following its 2020 review of stakeholder engagement, the Australian Energy Market Operator (AEMO) has proposed to introduce a new budget and finance sub-committee (the Committee).¹ This proposal responds to stakeholder requests for earlier engagement in relation to AEMO’s annual budget and fees. AEMO has set out a high-level design for the Committee, covering its scope, membership, and interaction with AEMO’s Board.

CEPA has been engaged by Energy Networks Australia and the Australian Energy Council (AEC) to provide advice on:

- How the Committee could improve accountability to AEMO’s Industry Members and customers.
- Design options for the detailed Committee arrangements, building on AEMO’s proposal.

CEPA’s September 2020 report on governance for the market and system operator function set out three ‘strawperson’ models that could be considered as alternatives to the current governance arrangements.² The second of these – *Model 2: Enhanced Member Oversight* – envisaged the creation of a ‘Budget and Planning Committee’ that is broadly similar to AEMO’s proposed Committee.

In line with our September 2020 report, we consider that establishing such a Committee has the potential to substantially increase transparency and accountability around AEMO’s budget and strategic planning processes. However, the design of the Committee arrangements will be an important element in how successfully it can deliver these improvements. In particular, we consider that the design should support the Committee to **provide meaningful oversight** of budgets and priorities, noting the impact of these on both costs and service levels for end consumers. We have therefore identified five design principles that may support the desired outcomes (Figure E.1).

Figure E.1: Design principles

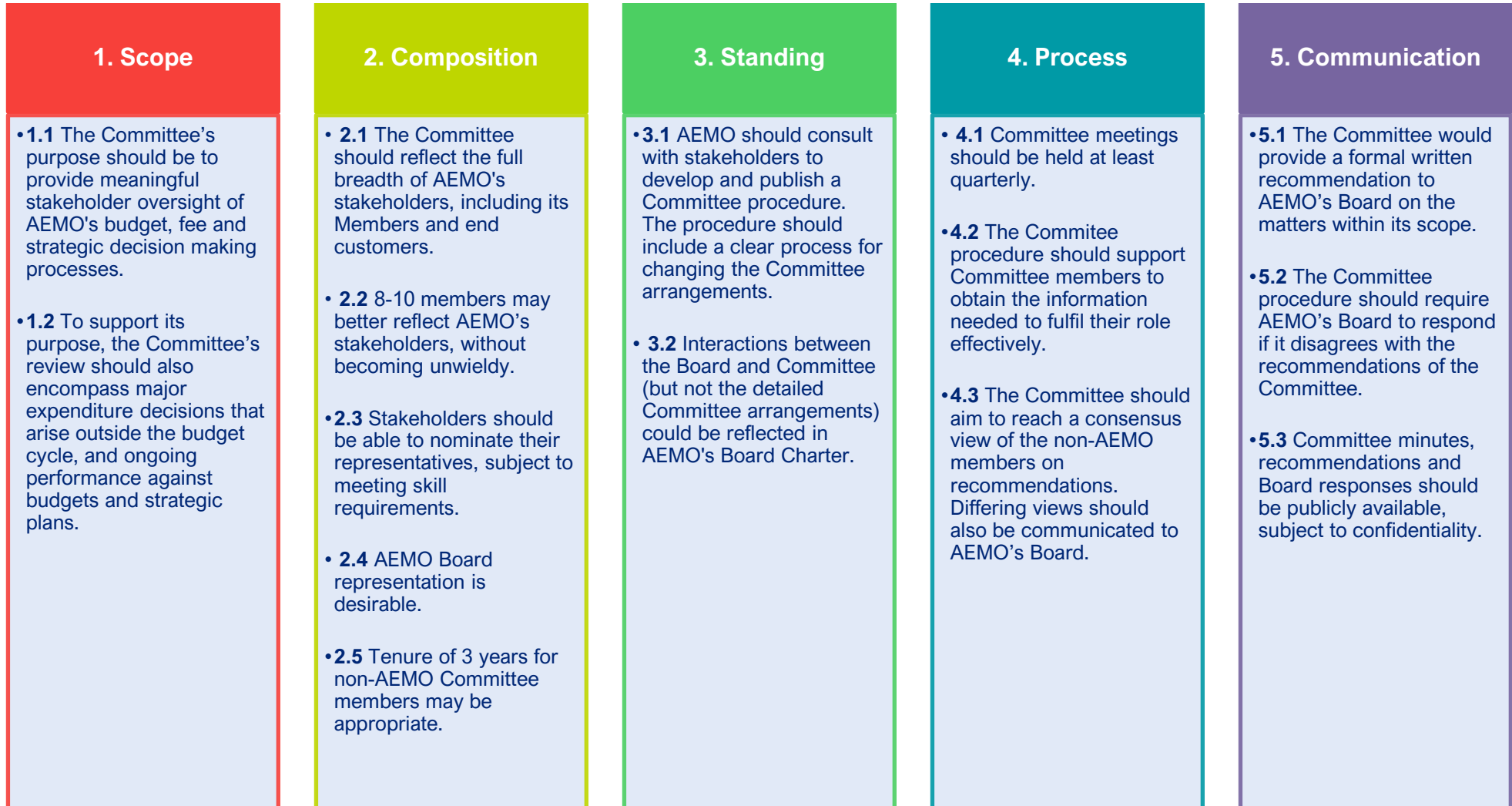


Based on our review of similar committees established by other system operators, we have developed recommendations around key design elements that could satisfy these principles (Figure E.2, overleaf). These suggestions aim to build on the high-level Committee arrangements put forward by AEMO. We anticipate that these proposals will be a starting point for more detailed discussions between AEMO, its Industry Members, and other stakeholders, including consumer representatives.

¹ AEMO, *Renewing AEMO’s Engagement Model – Response Paper*, November 2020.

² CEPA, *Governance and regulation of market / system operators*, 9 September 2020.

Figure E.2: Key design elements and recommendations



1. INTRODUCTION

CEPA has been engaged by Energy Networks Australia and the Australian Energy Council (AEC) to provide advice on the design of the Budget and Fees Committee (the Committee) proposed by the Australian Energy Market Operator (AEMO). This advice follows on from CEPA’s September 2020 report – *Governance and regulation of market / system operators* – in which we reviewed AEMO’s current governance arrangements and proposed alternative models for further consideration.⁴

1.1. CONTEXT

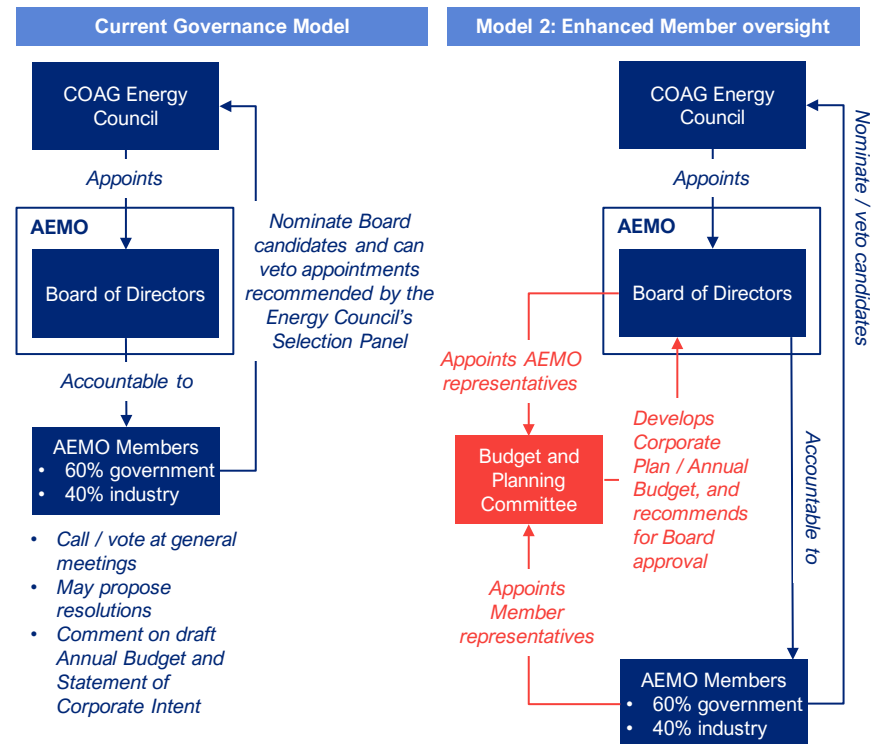
CEPA’s September 2020 report set out three ‘strawperson’ governance models that have the potential to improve the transparency and accountability of AEMO’s current governance framework, in particular in relation to strategic and budgetary decision-making processes. The second of these alternative models – *Model 2: Enhanced Member Oversight* – provided for the creation of a ‘Budget and Planning Committee’ (Figure 1.1).

Model 2 envisaged an enhanced, formal role for AEMO’s Government and Industry Members in the company’s strategic decision-making processes, through participation in a standing committee that would have responsibility for:

- Developing, and recommending to AEMO’s Board, AEMO’s Corporate Plan and annual budget.
- Overseeing performance reporting, to the Board and Membership, in relation to these documents.

Under this model, the Board would continue to have decision-making authority over the approval of the final budget and Corporate Plan. Unlike our proposed Model 3, Model 2 involves no regulatory oversight of budgets or fees.

Figure 1.1: Alternative governance arrangements - Model 2



Source: CEPA

⁴ CEPA, *Governance and regulation of market / system operators*, 9 September 2020. Available at <https://www.energynetworks.com.au/resources/reports/2020-reports-and-publications/governance-and-regulation-of-market-system-operators/>.

In July 2020, AEMO initiated a process to review its stakeholder engagement model. In November 2020, AEMO published a proposal for a new forum and working group model that would structure its engagement with stakeholders.⁵ This proposal includes a Budget and Fees Committee (the Committee), a sub-committee sitting under the broad AEMO Stakeholder Forum, that would provide for early consultation on AEMO's budget and fees. This proposal shares some similarities with Model 2 from CEPA's earlier report.

AEMO has proposed the following key elements of the Committee:

- Chaired by AEMO's Chief Financial Officer (CFO).
- Comprised of up to six members.
- Committee members would be appointed on merit.
- Committee members must have financial responsibility in a relevant organisation.
- Committee members would receive early insight into AEMO's cost drivers, budget and corporate plan priorities.
- Committee members would have the opportunity to present to AEMO's Board prior to the finalisation of the annual budget.

AEMO has also noted that it plans to consult on its budget and fees with the Committee between March and May each year. AEMO has also indicated to us that it intends to establish interim arrangements for the Committee in 2021, while a more enduring design is developed with its stakeholders. Finally, we understand that AEMO's proposal covers expenditure related to all its functions, including NEM, WEM, gas markets and National Transmission Planner (NTP) activities, among others.

1.2. SCOPE AND APPROACH

The AEC and Energy Networks Australia have engaged CEPA to expand on how governance Model 2 from our September 2020 report could function in the Australian context, in the interest of both AEMO Members and energy customers. In particular, CEPA has been asked to:

- Consider, and briefly evaluate, how the Committee proposed by AEMO could improve accountability to AEMO's Industry Members and customers; and
- Advise on key factors that AEMO's Industry Members and customers should want to see in the terms of reference for the Committee, should one be implemented by AEMO.

To develop our advice to the AEC and Energy Networks Australia, we have considered what overarching principles the Committee design should aim to satisfy (**Section 2**). We have also had regard to the design of similar committees that have been established by five US Independent System Operators (ISOs). We have drawn on this research, and our broader experience, to identify potential design options and assess which of these might best meet the principles in the Australian context (**Section 3**). This analysis is summarised in a recommended approach for each design element, which we hope will be a useful basis for further collaboration between AEMO, its Industry Members, and other stakeholders, including consumer representatives, on the Committee design.

AEMO has provided us with clarification on certain points of their proposal for the Committee. However, in line with our terms of reference, we have not sought AEMO's views on our recommendations (noting that these are intended to provide a starting point for discussion between AEMO, its Industry Members, and other stakeholders).

⁵ AEMO, *Renewing AEMO's Engagement Model – Response Paper*, November 2020.

2. DESIGN PRINCIPLES

In line with CEPA’s September 2020 report on governance arrangements for the market and system operator function, we consider that the establishment of the Committee has the potential to substantially increase transparency around AEMO’s budget and strategic planning processes. In particular, this outcome would result from the Committee being empowered to provide effective scrutiny of budgets and priorities, through improved access to relevant supporting information and the ability to ask detailed questions of AEMO’s management. Further, the Committee has the potential to improve the communication of stakeholder views to AEMO’s Board on budget and planning issues, through the establishment of a clear and transparent process for comment.

However, the design of the Committee arrangements will be an important element in how successful this process will ultimately be in delivering these potential improvements. Accordingly, we have sought to identify design principles that can support the desired outcomes. We have reviewed a range of established principles for regulation, governance and budgetary management:

- The Australian Institute of Company Directors (AICD) not-for-profit (NFP) governance principles.⁶
- The Organisation for Economic Cooperation and Development’s (OECD) Principles of Budgetary Governance.⁷
- The Better Regulation Task Force Principles of Good Regulation.⁸

We have also taken into account AEMO’s objectives for its stakeholder engagement review, namely, to “*improve transparency, consistency and collaboration*” and to “*work flexibly both on problem-solving and considering future issues as well as delivering to immediate functional concerns*”.⁹

From this review, we have identified five design principles (Figure 2.1).

Figure 2.1: Design principles



Source: CEPA

⁶ AICD (2019), *Not-for-profit governance principles*, second edition, January, page 4-7.

⁷ OECD (2015), *Recommendation of the Council on Budgetary Governance*, page 3.

⁸ BRTF (2005), *BRTF Annual Report 2004/05*, pages 26-27.

⁹ AEMO, *Renewing AEMO’s Engagement Model – Options Paper*, July 2020, page 5.

3. COMMITTEE DESIGN

In this section, we set out our findings on key design elements of similar committees that have been established in other jurisdictions. Based on this research, we present our views on the key issues for the design of the AEMO Committee, and identify design options that could meet the principles described in Section 2. We highlight where our proposals align with the high-level design suggested by AEMO, and where there are differences.

We have organised our analysis around five design elements – scope, composition, standing, process, and communication – illustrated in Figure 3.1.

Figure 3.1: Budget & Fees Committee - Design elements



Source: CEPA

3.1. INTRODUCING THE CASE STUDIES

Our desktop research has covered five US Independent System Operators (ISOs) – ISO New England (ISO-NE), the Midcontinent Independent System Operator (MISO), New York ISO (NYISO), Pennsylvania-New Jersey-Maryland Interconnection (PJM) and Southwest Power Pool (SPP). We have selected these entities on the basis that they have established committees which possess similar functions to those envisaged by AEMO in its high-level design:

- ISO-NE: Budget and Finance Subcommittee
- MISO: Finance Subcommittee
- NYISO: Budget & Priorities Working Group (BPWG)
- PJM: Finance Committee
- SPP: Finance Committee.

For ease of reading, in this report we generally use the generic term ‘finance committee’ in referring to these groups.

We have attempted to supplement our desktop research with discussions with members of these committees. However, in the limited time available for completing this report, we have only been able to speak with a handful of individuals. Further engagement with ISO committee members may be useful to inform further discussions on the design of the AEMO Committee, although ‘learning by doing’ through the interim 2021 arrangements is likely to be most efficient.

In assessing the relevance of the case study committee designs for Australia, it is important to consider the broader governance and regulatory arrangements within which the US ISOs operate.

The ISOs that we have researched are independent not-for-profit entities, whose members play an active role in the governance of the organisation.¹⁰ Within this model, member involvement in the governance processes of ISOs is typically facilitated through a committee of the members, that communicates with the ISO's board and management, and reports to their members. The various ISOs have different names for this committee, but to avoid confusion we generally refer to these using the generic term, 'members' committee'. Members' committees can be tasked with such roles and responsibilities as electing the members of the ISO's board, reviewing budgets, and advising the board on a broad range of issues concerning the operation of energy markets and the ISO's business practices.

The members' committees typically convene subcommittees or working groups to focus on specific issues. Several of the case studies provide examples of this – the ISO-NE, MISO and NYISO finance committees are subcommittees or working groups that sit under their members' committees. As we discuss later in this report, these arrangements affect members' roles in the budget processes and how they interact with the board. In contrast, the PJM and SPP finance committees communicate directly with the respective ISO boards.¹¹ Figure 3.2 (overleaf) sets out the relationships between the board, members' committee and finance committee for each of the five ISOs.

Another relevant contextual factor relates to arrangements for setting the fees levied by the ISOs on market participants. As all the case studies operate under a not-for-profit model, fees are intended to recover the ISOs' actual costs.

Nonetheless, fee setting processes vary substantially, with some ISO's submitting fees to the Federal Energy Regulatory Committee (FERC) for approval (Table 3.1).

Table 3.1: Overview of fee setting arrangements

SO	Fee setting process
PJM	Under PJM's 'stated rate' mechanism, administrative costs are recovered through fixed, long-term fees that are defined in PJM's Open Access Transmission Tariff (Tariff), with annual updates for escalation. ¹² Changes to the Tariff, including stated rates, must be accepted by the Federal Energy Regulatory Commission (FERC). ¹³
ISO-NE	Following consultation with stakeholders, the budget approved by ISO-NE's board is submitted to FERC at least 60 days before the operating year starts. If FERC approves the budget, revised service rates based on the budget are reflected in the ISO's Tariff. ¹⁴
MISO	Actual costs are recovered from market participants through a formula specified in the ISO's Tariff. Accordingly, fees vary to reflect actual / budgeted costs. The fee setting processes do not appear to involve FERC approval ¹⁵ , although our understanding is that affected parties could potentially file for FERC review of the ISO's Tariff if they considered these provisions were 'unjust and unreasonable'. ¹⁶
NYISO	
SPP	As for MISO and NYISO. However, SPP's Tariff also specifies a maximum rate (US \$0.43 / MWh) for the ISO's administrative cost recovery. ¹⁷ Varying the Tariff requires FERC approval.

Source: CEPA analysis (references in footnotes).

¹⁰ Broadly, the ISO membership reflects organisations with an interest in the operation of the electricity market. Depending on the ISO, membership categories may include generators, retailers, network operators, consumers, governments, and local power authorities.

¹¹ PJM, *Operating Agreement*, 18 February 2020, section 7.5.1(b); SPP, *Finance Committee Organizational Group Scope Statement*, 5 December 2017, p. 3.

¹² *Stated Rates Fact Sheet*, July 2017.

¹³ PJM, *Federal Law Guides Changes in PJM Governing Documents*, 2020.

¹⁴ ISO-NE, *The ISO Funding and Budgeting Process*, available at: <https://www.iso-ne.com/about/what-we-do/in-depth/the-iso-funding-and-budgeting-process>.

¹⁵ MISO, *FERC Electric Tariff – Schedule 10 – ISO Cost Recovery Adder*. NYISO, *Open Access Transmission Tariff – Schedule 1 – ISO Annual Budget Charge and Other Non-Budget Charges and Payments*.

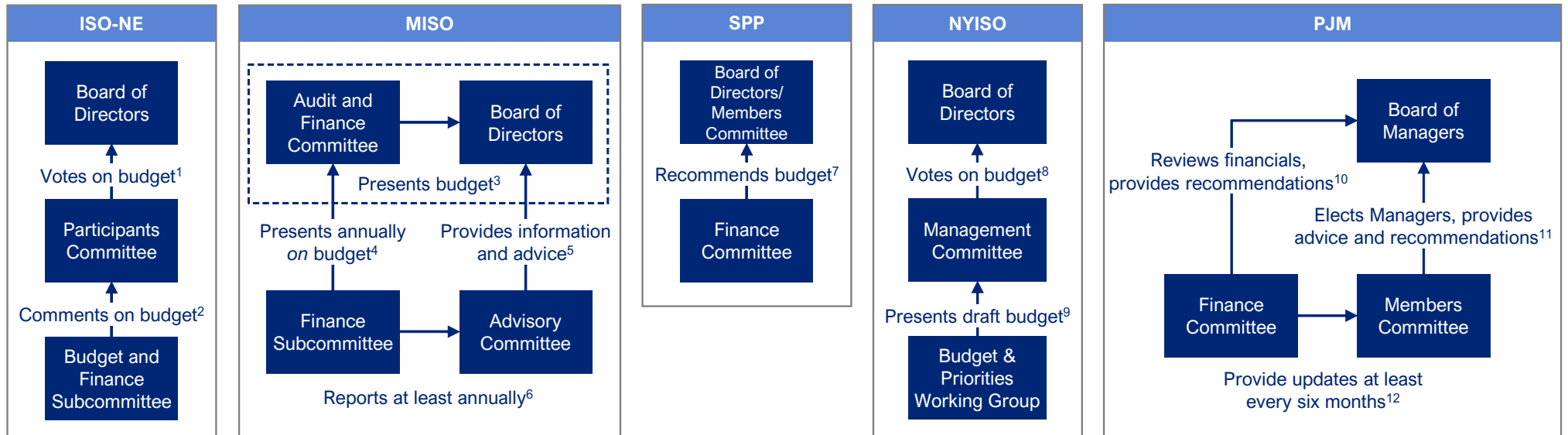
¹⁶ Section 206 of the Federal Power Act.

¹⁷ SPP, *Docket No. ER20-418-000, Submission of Tariff Revisions to Unbundle Schedule 1-A Tariff Administration Services to Include Market Services*, November 2019. SPP, *Open Access Transmission Tariff – Sixth Revised Volume No. 1 – Schedule 1-A Tariff Administration Services*.

Among the case studies, there does not appear to be a clear correspondence between the presence of external oversight of budgets/fees, and the breadth and depth of the finance committee’s role. Nonetheless, in considering the scope of AEMO’s proposed Committee, we have taken into account the relative absence of

regulatory oversight of its budgets and fees (with the exception of the Economic Regulation Authority’s determination of allowable revenue and capex for WEM functions). In our view, this supports consideration of Committee arrangements that are at the ‘stronger’ end of the spectrum suggested by the case studies.

Figure 3.2: Relationships between boards and committees



1. ISO-NE, *Participants Agreement*, paragraph 12.2.
2. Ibid., paragraph 12.1. ISO prepares budget and provides it to Budget and Finance Subcommittee for comment. ISO shall then consider comments and submit budget to Participants Committee to vote on.
3. MISO, *Board of Directors Meeting Agenda*, 10 December 2020. Budget approval item appears under Board of Directors Audit & Finance Committee.
4. MISO, *2020 Finance Subcommittee Management Plan*, pp. 2-3.
5. MISO, *Advisory Committee 2020 Charter*, 23 April 2020.
6. MISO, *2020 Finance Subcommittee Management Plan*, p. 1.
7. SPP, *Finance Committee Organizational Group Scope Statement*, 5 December 2017.
8. NYISO, *2021 Budget Overview*, BPWG Meeting, 28 October 2020, slide 23.
9. NYISO, *2020 Committee Structure and Scope of Responsibilities*. The BPWG works towards consensus position on budget, which is then passed to Management Committee for final vote to approve.
10. PJM Finance Committee, *Financial Review, Reporting and Communications Protocol*.
11. PJM, *Members Committee Charter*, 25 August 2016.
12. PJM Finance Committee, *op. cit.*, p. 2.

3.2. SCOPE

This element refers to the stated purpose of the Committee, the material it reviews, and the role that it has in the system operator’s budgetary processes and strategic decisions.

Case study evidence

Table 3.2 summarises the stated purpose and material reviewed for each of the case study committees. Their authority in relation to ISO budgets is not included in the table, as it is uniform across the case studies: all operate in an ‘advisory only’ capacity to either the members’ committee or the board. In each case, the board has ultimate responsibility for the financial decisions of the ISO.

Across the case studies, the scope of the finance committee varies from being relatively narrow and primarily focused on the budgetary process, to having a wider role, such as in the case of the NYISO and SPP. For example, the NYISO’s finance committee scope covers project identification and prioritisation, while SPP’s committee considers all aspects of the ISO’s finances. Three of the committees have ongoing mandates to periodically monitor the actual expenditure of the ISO relative to the budget, throughout the fiscal year.¹⁸ ISO-NE states that it regularly provides updates on budgeted versus actual expenditure to FERC and market participants throughout the year, although it is not clear whether their finance committee has a role in reviewing this material.¹⁹

We note that the ISOs may have other committees with member representation where decisions on strategic priorities and resource allocation are discussed.

Table 3.2: Purpose and material reviewed by case study committees

ISO	Stated purpose	Material reviewed
ISO-NE	Provide input and advice to the Participants Committee on the ISO’s operating and capital budgets, billing and settlement system, Financial Assurance Policy and Billing Policy.	Annual budget containing operating expenses, capital expenses and other extraordinary nonrecurring expenses.
MISO	Facilitate flow of information regarding significant financial matters between the Advisory Committee, MISO management and financial accounting staff. Review and report on annual capital / operating budgets.	Annual capital and operating budgets, periodic budget vs. actual results and unbudgeted expenditures >\$1 million. ²⁰
NYISO	Provide guidance on development and management of the budget, and input and guidance on project identification, selection, prioritisation, budgeting and monitoring.	Annual budgets, periodic budget vs. actual results for all NYISO line items, scope, cost and schedule of projects being implemented by NYISO. ²¹
PJM	Review financial statements and budgets and make recommendations to PJM Board on the level of PJM’s rates, proposed major new investments and allocation of funds.	Financial statements, budgeted and actual capital costs, operating budgets and expenses, and cost management initiatives.
SPP	Oversee all aspects of SPP’s finances and financial operations, ensuring appropriate controls, policies and procedures.	All policies and procedures relating to financial operations and risk management. Annual budgets for upcoming fiscal year and audited financial statements for prior year.

Source: CEPA analysis

¹⁸ MISO, NYISO and PJM.

¹⁹ ISO-NE, *Corporate Governance – Budget*, available at <https://www.iso-ne.com/about/corporate-governance/budget>.

²⁰ MISO, *Finance Subcommittee (FSC) Charter*, 22 April 2020.

²¹ NYISO, *2020 Committee Structure and Scope of Responsibilities*.

Analysis and recommendations

The case studies illustrate that there are multiple options that could be considered for the scope of the AEMO Committee, ranging from a primary focus on the budgetary process, or a wider role in strategic decision making. AEMO's proposal involves Committee members receiving early insight into AEMO's cost drivers, budget and corporate plan priorities, with fees also to be included within the Committee's scope. Accordingly, this proposal appears to sit closer to the former, than the latter.

We consider that a broader scope than that proposed by AEMO may improve the ability of the Committee to satisfy the design principles. Specifically:

1. To achieve a step-change in transparency and collaboration, it would be desirable for the Committee's role to extend beyond receiving early insight into budgets and cost drivers. We suggest that from a governance perspective, it will be most valuable if the Committee's role enables it to provide meaningful scrutiny of and input to AEMO's budget, corporate plan and fee proposals.
2. The Committee should have a role in monitoring performance against budgets. This would provide greater transparency and budget discipline, while the ongoing engagement would improve the effectiveness of the Committee, by increasing their understanding of AEMO's budget requirements.
3. Major expenditure items may not always be identified, or fully scoped, at the time the annual budget is prepared. Accordingly, for the Committee to provide meaningful input in relation to AEMO's overall expenditure, there may need to be a mechanism for the Committee to review and comment on such projects as they arise throughout the year.

To facilitate this, the Committee process may need to be ongoing throughout the year. We discuss this further in Section 3.5.

A more extensive implementation would be to task the Committee with identifying and prioritising projects, as is the case for NYISO. We are not recommending this as a starting point for the AEMO Committee, as it would represent a more complex implementation that may not be needed. However, we note that there will be other forums where cost issues are discussed between AEMO and stakeholders. For example, AEMO's revised NEM Wholesale Consultative Forum will "*particularly focus on facilitating an industry discussion on implementation prioritisation and technology costs associated with implementation*".²² It could be helpful if AEMO, in defining the scope of the Committee, could provide a vision for how it will ensure that the Committee can have meaningful input into strategic and operational decisions that may ultimately sit with other stakeholder forums or business processes.

Recommendations 1: Scope

- **1.1** The Committee's purpose should be to provide meaningful stakeholder oversight of AEMO's budget, fee and strategic decision-making processes.
- **1.2** To support its purpose, the Committee's review should also encompass major expenditure decisions that arise outside the budget cycle, and ongoing performance against budgets and strategic plans.

3.3. COMPOSITION

This design element relates to the makeup of the committee membership, including its size, skillset, and the appointment process.

Case study evidence

For the MISO, PJM and SPP finance committees there are prescribed membership structures. These are summarised in Table 3.3 below.

²² AEMO, *Renewing AEMO's Engagement Model – Response Paper*, November 2020, p. 8.

Table 3.3: Composition of case study committees

ISO	Composition
MISO	<ul style="list-style-type: none"> Each industry sector designates one representative, for a total of up to 11 committee members if all sectors elect a representative Committee members are elected for two-year terms.²³
PJM	<ul style="list-style-type: none"> 13 committee members, comprised of: <ul style="list-style-type: none"> Two PJM Board Members, other than the President, selected by the PJM Board One PJM Representative selected by the President Two representatives for each sector of the Members Committee, or which there are five (10 members in total). Stakeholder members are elected for three-year terms.²⁴
SPP	<ul style="list-style-type: none"> At least six members and up to nine members' committee members, with equal representation from SPP's Board of Directors, Transmission Owning Members and Transmission Using Members. The stakeholder members are nominated by the Corporate Governance Committee. All members are appointed by the Board and will serve until a successor is appointed.²⁵

In contrast, the ISO-NE and NYISO committees are open to all ISO members, leading to much larger committees than those described in Table 3.3. NYISO's

BPWG has almost 400 members,²⁶ while ISO-NE's Budget and Finance Subcommittee has 60 members.²⁷

MISO is the only ISO for which we have identified a published set of skills that finance committee members must possess; being one or more of the following:

- finance education or experience;
- profit and loss responsibility;
- budget preparation and budget compliance expertise; and
- rate case preparation, presentation or expert testimony.²⁸

As noted in Table 3.3, two committees – PJM and SPP – include board member representation. We note that other ISOs may have other processes that provide for direct communication between stakeholders and the board, for example NYISO's Liaison Subcommittee which meets with the board on a monthly basis.²⁹

Analysis and recommendations

The key issues to consider in determining the composition of the AEMO committee are the process through which Committee members are selected, the selection criteria and appropriate qualifications.

AEMO's proposal is for:

- The Committee to have up to six members.
- Committee members to have financial responsibility in a relevant organisation, and would be appointment based on merit.

²³ MISO, op. cit.

²⁴ PJM, *Financial Reporting & Communications Protocol*, 2006.

²⁵ SPP, *SPP Bylaws*, 1 January 2021, section 6.5.

²⁶ Information provided to us by NYISO staff in January 2021. Each member organisation can nominate up to eight representatives for the working group. Between 30 and 40 members typically attend each meeting.

²⁷ ISO-NE, *Participant Directory for NEPOOL Budget & Finance Subcommittee*, January 2021. Available at: <https://www.iso-ne.com/participate/participant-asset-listings/directory?id=29&type=committee>

²⁸ MISO, op. cit.

²⁹ NYISO, *NYISO Governance: Frequently Asked Questions*, available at: <https://www.nyiso.com/documents/20142/1408883/NYISO-Governance-FAQ.pdf/471f13a1-5def-7358-b0a5-42221906ac0e?t=1546629718621>

- The Committee would be chaired by AEMO's Chief Financial Officer (CFO).

AEMO's proposal did not identify who would be responsible for appointing members, although we understand that for the interim committee arrangements AEMO proposes to seek support from industry associations.

We have four main observations on the committee design in terms of its composition which are set out below.

First, we think that it would be appropriate for the composition of the Committee to reflect the breadth of AEMO's stakeholders, including customers and government stakeholders. While industry participants are directly affected by AEMO's fees, we note that:

- Customers can ultimately be expected to bear these costs, and are directly affected by budgetary or strategic decisions that impact AEMO's operational capabilities.
- While Governments do not bear AEMO's costs, they nonetheless have a defined role in AEMO's current governance structure and will also be concerned to ensure that AEMO's funding is both adequate and targeted at critical security and reliability priorities.

Second, we have observed through the case studies that some ISO finance committees include members of the ISO Board. We think that there are strong advantages in taking a similar for the AEMO Committee. In particular, we think this would:

- Give weight to the Committee, and signal a strong commitment from AEMO to provide greater transparency in relation to budget and strategic decisions.

- Promote communication between the board and stakeholders, providing a regular forum for board members to hear stakeholder views on budgets and priorities first hand. We suggest that this would assist the Board in understanding, and being able to respond, to concerns at an early stage, rather than only receiving a presentation from stakeholder at the time the budget is submitted for approval.

If an AEMO Director, or Directors, participate, it may be appropriate for them to chair the Committee. If an AEMO Director is not appointed, it seems appropriate for AEMO's CFO to chair the Committee.³⁰

With these points on customer, government and Board participation in mind, a six-member Committee appears small. It would also be smaller than the similar financial committees observed through the case studies. We suggest that a slightly larger Committee – of approximately eight to ten members – would be more appropriate, while still being of a size that allows for detailed discussion and debate. In relation to the composition of members, the AEMC's Reliability Panel, which allows for up to eight stakeholder representatives in addition to AEMO, could serve as a useful guide.³² Taking this example and other insights from our research, we have put together a 'strawperson' design of an eight-person committee (Box 1). In line with the case studies, we suggest it would be appropriate for stakeholder groups to choose their own representatives, as long as they are in possession of suitable skills (discussed further below).

³⁰ As noted under 'Communication' below, while we anticipate that the secretariat function would be provided by AEMO, we suggest that Committee recommendations should reflect

the views of non-AEMO members. Accordingly, the role of the chair would primarily be facilitative.

³² NER, rule 8.8.2.

Box 1: 'Strawperson' composition of a Budget and Finance Committee

AEMC's Reliability Panel and AEMO's Settlements Residue Committee³³ and Information Exchange Committee³⁴ are examples of existing entities that are intended to broadly represent a range of interests from across the energy industry.

With reference to these examples and the insights we have collected through the case studies, we propose the following 'strawperson' composition of a eight-person Committee:

- an AEMO Director, appointed by the AEMO Board
- the CFO or a delegate of AEMO
- four industry representatives, consisting of:
 - a person representing Generators
 - a person representing Market Customers
 - a person representing Transmission Network Service Providers
 - a person representing Distribution Network Service Providers
- a person representing end use consumers
- a person representing AEMO's Government Members, appointed jointly by AEMO's Government Members.

Thirdly, AEMO's requirement for Committee members to have financial responsibility could potentially be broadened. If the role of the Committee is to scrutinise and input into the debates around the need for expenditure, parties with other experience, such as practical knowledge about transmission investments or IT system upgrades, and the costs of such initiatives, may also be well placed to meaningful input. Further, a financial responsibility criterion may be more difficult to satisfy for customer or government Committee members. Nonetheless, we agree that it is important that the representatives be senior members of their organisation. Therefore, we suggest that the criteria could be broadened to:

- Committee members must have executive-level responsibility within their organisation.

- Industry and government Committee members must have decision-making experience in relation to budgeting and/or expenditure approval.

Finally, although information on committee member tenure was only available for two case studies, these indicated terms of 2-3 years. We suggest consideration of a 3-year tenure period, to leverage the knowledge that Committee members will build up over time, while allowing for the regular introduction of fresh perspectives. It may also be appropriate to consider staggered replacement of Committee members, to promote a degree of continuity.

Recommendations 2: Composition

- **2.1** The Committee should reflect the full breadth of AEMO's stakeholders, including its Members and end customers
- **2.2** 8-10 members, in line with the composition suggested in Box 1, may allow the Committee to reflect AEMO's stakeholders, without becoming unwieldy.
- **2.3** Stakeholders should be able to nominate their representatives, subject to meeting skill requirements.
- **2.4** AEMO Board representation is desirable.
- **2.5** Tenure of 3 years for non-AEMO Committee members may be appropriate.

3.4. STANDING

This element relates to how the finance committee is formally created and how the arrangements relating to it can be changed.

Case study evidence

The case study committees display two categories for this element:

1. Those which have standing in the principal governance documents of the ISO (ISO-NE, PJM, SPP), and

³³ NER, rule 3.18.5.

³⁴ NER, rule 7.17.6.

2. Those which have been established by members committees (MISO, NYISO).

Our summary of the standing of the case study committees is set out in Table 3.4.

Table 3.4: Standing of case study committees

ISO	Where committee defined	How arrangements can be changed
PJM	<ul style="list-style-type: none"> PJM Operating Agreement Financial Reporting & Communications Protocol. 	<ul style="list-style-type: none"> Operating Agreement can be amended by vote of the Members Committee The Protocol is an agreement between the Finance Committee and the ISO. Seemingly it could be modified through mutual agreement.
NYISO	<ul style="list-style-type: none"> Committee Structure and Scope of Responsibilities document 	<ul style="list-style-type: none"> The BPWG was established through a majority vote of the Members Committee and we understand that changes can be enacted in the same way.
ISO-NE	<ul style="list-style-type: none"> NEPOOL Agreement Participants Agreement 	<ul style="list-style-type: none"> NEPOOL Agreement can be amended by a two-thirds majority vote of Participant Committee (and approval by Board of Directors, if the amendment changes provisions that are also in the Participants Agreement)³⁵ Participants Agreement can be amended by 70% majority vote of the Participant Committee.³⁶
MISO	<ul style="list-style-type: none"> Finance Subcommittee Charter 	<ul style="list-style-type: none"> Subcommittee established by Advisory Committee, suggesting that members have collective control over committee arrangements.

ISO	Where committee defined	How arrangements can be changed
SPP	<ul style="list-style-type: none"> SPP Bylaws Scope Statement 	<ul style="list-style-type: none"> Bylaws can be amended by 'majority+1' vote by the Board of Directors³⁷ Scope Statement was approved by Board of Directors, suggesting that changes would need to be approved in the same way.

Analysis and recommendations

This design element relates to how, and where, the Committee is formally created. We consider that this is an important element of the design, because the Committee's formal standing can change how the Committee is perceived, and therefore the level of commitment of both AEMO and Committee members to making it a success. This part of the Committee design can also affect how changes to the Committee design and processes can be made, and who is involved in the change process.

As noted above, the cases studies indicate that in many cases, the finance committee is defined in the system operator's governing documents (i.e. their operating agreement). In others (NYISO, MISO), we understand that the committees have been created by members' committees, who themselves are established in the ISO's governance documents. Accordingly, there is a degree of formality and permanence that may have contributed to the committees' longevity.

We have considered five potential options for the AEMO Committee, which are outlined in

³⁵ ISO-NE, *Second Restated NEPOOL Agreement*, 7 April 2017, section 16.9.

³⁶ ISO-NE, *Participants Agreement*, 15 October 2019, section 17.2.

³⁷ SPP, *op. cit.*, section 10.

Table 3.5 below.

Table 3.5: Standing - Design options

Option	Description
1. Published ToR	This option represents the minimum, and lightest touch arrangements. Similar to AEMO's existing working groups, a terms of reference (ToR) for the Committee would be published on AEMO's website, covering factors such as objectives, functions, participation requirements and processes, meeting timings, administrative arrangements and resourcing. However, there is typically no other 'formalisation' of the group's role, or defined processes (e.g. consultation) for the arrangements to change.
2. AEMO procedure	AEMO is required under the NER and NGR to follow a prescribed consultation procedure (i.e. the rules consultation procedures) in certain situations. The Committee arrangements could be included in one, or more, of these existing processes. For example, AEMO periodically reviews its electricity and gas market participant fee structures in this way and could include the Committee arrangements in its determination (e.g. as an annex). ³⁹ The main difference between options 1 and 2 is that the latter would provide a clear process to change the Committee arrangements (i.e. the rules consultation procedures). However, if the Committee arrangements are an optional inclusion in a rules consultation process, AEMO could still amend the arrangements through a different process. This could provide helpful flexibility but would potentially detract from the clarity of the process. A further consideration is that the participant fee structure determinations relate to NER and NGR requirements, while the Committee's scope will extend to WEM expenditure.

Option	Description
3. AEMO Board Charter	AEMO publishes a Board Charter, setting out the functions and responsibilities of the Board. The current Charter states that <i>"the Board will determine a communications framework to provide for effective communication between the Board and AEMO's members and stakeholders."</i> ⁴⁰ Potentially, aspects of the Committee process could be referenced in the Charter. For example, this might be appropriate if (per our recommendations) an AEMO Director is a member of the Committee, or if the Board is required to formally respond to the Committee's recommendations. However, the Charter is not likely to be a suitable location for detailed Committee arrangements (which would therefore need to be defined elsewhere).
4. AEMO's constitution	Under this option, the Committee would be defined in AEMO's constitution. This would be similar in nature to several case studies, by embedding the Committee in AEMO's governing documents. For example, the Committee could potentially be incorporated in a separate section of the Constitution, such as Art. 16.2 which discusses communication between Directors and Members on the draft Statement of Corporate Intent and Budget. These provisions could potentially be supplemented with (aspects of) the Committee arrangements.
5. Regulatory requirement	Finally, the Committee arrangements could potentially be established as a regulatory requirement. This could take various forms, ranging from: <ul style="list-style-type: none"> • A non-prescriptive requirement for AEMO to establish a procedure for consulting on budgets, fees and its corporate

³⁹ NER rule 2.11 and NGR rule S135CA(1). We note that AEMO is currently consulting on its electricity and gas market participant fee structures that will apply from 2021.

⁴⁰ AEMO Board Charter, Article 16.1.

Option	Description
	<p>plan (which would then be formalised through a published document or procedure, as under Option 2).</p> <ul style="list-style-type: none"> • A prescriptive requirement for AEMO to establish a Committee, whose arrangements would be defined in regulation.⁴¹ <p>Given that the Committee’s scope would encompass budgets for all of AEMO’s activities, such a requirement would need to be reflected in the NER, NGR and WEM market rules.</p>

Source: CEPA

There are pros and cons for all the options. While the less formalised options (1 and 2) have advantages in relation to flexibility, the ongoing role for the Committee would be at AEMO’s discretion. On the other hand, the more formalised options also suffer from material disadvantages. For example, while Option 4 is arguably the most comparable to the case studies, it may not be the most practical option. AEMO’s Constitution is governed by its Members, who would therefore need to agree on the amendment. This process could result in delays to the Committee commencing, and may preclude an appropriate role for other stakeholders (in particular, customers) in establishing the Committee design. Option 5 would provide a clear and enduring basis for the Committee. However, it would require coordinated changes to multiple market rules, which is not aligned with the proportionality principle.

Accordingly, we suggest further exploration of a combination of Option 2 and 3 may be appropriate.

Recommendations 3: Standing

- **3.1** AEMO should consult with stakeholders to develop and publish a Committee procedure. The procedure should include a clear process for changing the Committee arrangements.

- **3.2** Interactions between the Board and Committee (but not the detailed Committee arrangements) could be reflected in the Board Charter.

3.5. PROCESS

This element relates to the timing and frequency of meetings, the review process, and process for Committee members to form recommendations.

Case study evidence

The meeting frequencies that we have observed among the case studies range from monthly (ISO-NE) to “at least twice per calendar year” (SPP). The timing of the meetings appears to be regular: even the committees that primarily focus on annual budgetary processes meet consistently throughout the year (at least quarterly in the case of MISO and monthly for ISO-NE’s finance committee).

The PJM and SPP finance committees provide recommendations on the annual budget directly to their Boards. In the case of PJM, the recommendation is based on a majority vote of the stakeholder committee members (i.e., excluding the Board and PJM representatives).⁴² If the finance committee is unable to come to a consensus view, there is a provision for minority views to be provided to the Board in a separate report. The SPP Finance Committee’s recommendation to its Board is also based on a vote. It is unclear from the documents we have seen what threshold is applied for a successful vote; however, it appears to be a majority.⁴³

The ISO-NE and NYISO committees provide recommendations to their respective members committees, which subsequently vote on whether to adopt the recommendation. In the case of ISO-NE, the result of the vote by the members committee is passed on to the Board for information, but it is unclear what

⁴¹ For example, like the SRA Committee (NER, rule 3.18.5).

⁴² PJM, op. cit., p. 1.

⁴³ The 2021 budget [was approved](#) by a vote of four in favour and two opposed, with six members in attendance (of which two were SPP Board members).

threshold is applied for the budget to be recommended for implementation. Votes of the NYISO members committee are approved with a 58 per cent majority.⁴⁴

The MISO committee’s process does not appear to involve a vote. Rather, the Finance Subcommittee presents to the Board’s Audit and Finance Committee ahead of the Board’s vote on the budget for the upcoming fiscal year.

The PJM and SPP committees can engage external advisors or consultants to assist them in exercising their responsibilities.⁴⁵

Analysis and recommendations

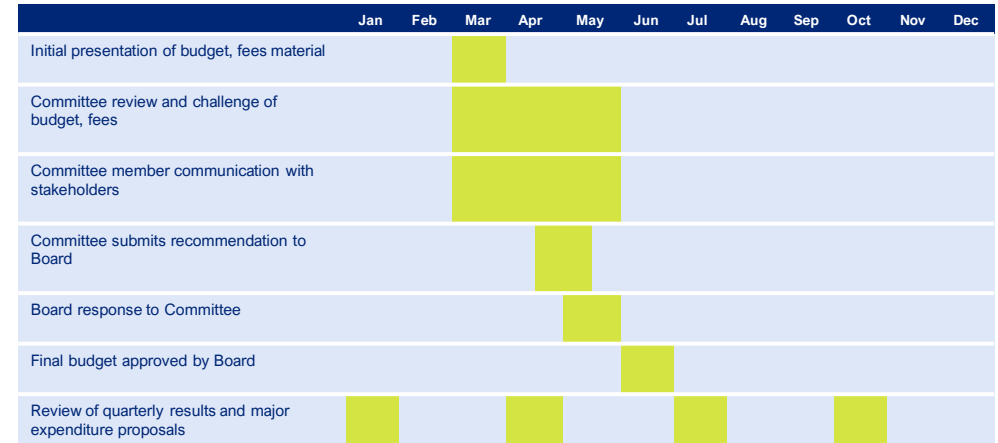
As discussed in Section 3.2, we consider that in addition to participating in the annual budget and planning cycle, it would be appropriate for the Committee to:

- Periodically review performance against AEMO’s budget and strategic priorities.
- Review the budget and fee implications of material projects as they arise, given that these may not all be identified and approved through the annual budget process. We understand that AEMO manages such expenditure through a ‘change request’ process.

Accordingly, we suggest that a minimum frequency of quarterly meetings may be a reasonable starting point (potentially with additional meetings in the quarter when the budget is being prepared). This would prevent the frequency of meetings from becoming too onerous for AEMO and its stakeholders (for example, compared to monthly meetings as in some ISOs), while allowing for regular discussion throughout the year. This would not prevent Committee members from meeting offline, should they find this useful. We provide an example timeline in Figure 3.3 below, noting that the precise details would depend on the timing of AEMO’s internal budget and planning processes.

We understand that the Committee’s involvement in the annual budget process is not intended to replace broader stakeholder consultation. Accordingly, this engagement is not reflected in Figure 3.3.

Figure 3.3: Illustrative Committee schedule



Source: CEPA

In relation to the content of meetings, for the Committee members to provide effective scrutiny and challenge, it is important that they have access to timely and sufficiently detailed information to allow them to understand the basis of budget proposals. At a minimum, we suggest that the Committee procedure should make clear that Committee members can request additional supporting information from AEMO and that AEMO will apply reasonable efforts to provide this information.⁴⁶ Further, the procedures should specify timelines for information provision. We note that, with the participation of AEMO’s CFO and Directors in the Committee process, Committee members will also have opportunities to highlight information shortcomings (if any) at Committee meetings and also in their ultimate

⁴⁴ NYISO, *ISO Agreement*, 1 January 2013, section 7.10(b).

⁴⁵ PJM, *op. cit.*, p. 5; SPP, *Finance Committee Organizational Group Scope Statement*, 5 December 2017, p. 1.

⁴⁶ We note that AEMO will likely be required to manage the challenge of sharing confidential information with Committee members. However, we anticipate that AEMO will be able to manage this effectively, given that it already does so as part of other information sharing and consultation processes.

recommendation to the Board (see Communication below). If all parties act in good faith, we expect that these provisions should be adequate. However, if over time there are difficulties relating to information access, it may be appropriate to consider other mechanisms to ensure the Committee has adequate information.⁴⁷ Given the proportionality principle, we suggest that such mechanisms are retained as an option, rather than a starting point.

We suggest that the Committee process should clearly state that it must form and present a recommendation to the Board in relation to the matters within its scope (annual budget, fees and corporate plan). The process to develop this recommendation will need to be defined. Based on the case studies, we suggest that:

- To promote the principle of collaboration, the Committee could aim to develop a consensus position on its recommendation, rather than a majority vote.
- If a consensus cannot be achieved, for transparency, differing views and the reasons for these should also be provided to the Board as part of the Committee’s recommendation.
- The Committee recommendation should represent the views of the non-AEMO Committee members, as AEMO staff will presumably endorse the budget/fees/plan that they have prepared.

Recommendations 4: Process

- **4.1** Committee meetings should be held at least quarterly.
- **4.2** Procedures should support Committee members to obtain the information needed to fulfil their role effectively.
- **4.3** The Committee should aim to reach a consensus view of the non-AEMO members on recommendations. Differing views should also be communicated to AEMO’s Board.

3.6. COMMUNICATION

This element relates to communication between Committee members and the parties they represent, and between Committee members and the ISO board.

Case study evidence

Table 3.6: Communication by case study committees

ISO	Communication with parties represented	Communication with Board
ISO-NE	Not specified in finance committee documents	Indirect, vote of members committee provided to Board
MISO	Report findings no less than annually to Advisory Committee	Presentation to Board’s Audit and Finance Committee
NYISO	All ISO members can nominate representatives for the working group. Working group members share information within their own organisations.	Indirect, vote of members committee provided to Board
PJM	Periodic status reports to Members Committee (at least once every six months)	Direct recommendation to Board
SPP	Not specified in finance committee documents	Direct recommendation to Board

Source: CEPA analysis

Across the cases studies, it is common for the agenda and meeting material (e.g., presentations, financial results) to be publicly available. In some cases, the meeting minutes are also published. From a practical perspective, it appears to be helpful for both meeting material and minutes to be published, as this allows interested parties to observe and understand the finance committee process.

⁴⁷ As noted above, the PJM and SPP models appear to allow for the committee to engage external advice, although the governance of this is unclear.

The PJM and ISO-NE finance committee processes place obligations on, respectively, the Board and the ISO itself if the finance committee opposes a budget. If the PJM Board approves a budget that is not consistent with the finance committee's recommendations, it must formally respond to the finance committee with written reasons for its decision and the Board representatives on the finance committee must discuss the reasons with the committee. The ISO-NE process obliges the ISO to provide additional, substantiating information to FERC if its Participants Committee opposes a budget.

For the other ISOs (NYISO and SPP) it is unclear what would happen if the finance committee does not recommend a budget, or if there are differences of opinion within the group. From our conversation with NYISO staff, we understand that the working group will seek to reach a consensus position for the members' committee to vote on.

Analysis and recommendations

AEMO's proposal is for committee members to have the opportunity to present to AEMO's Board prior to the finalisation of the annual budget. We believe that this would be worthwhile.

In addition to this presentation, we suggest that to support transparency there is likely be value in:

- The Committee providing a formal, written recommendation to the Board.
- Committee material (e.g., decisions, recommendations, minutes) being made public, unless there are genuine confidentiality requirements.
- The Board being required to respond if they do not agree to the Committee members' recommendations. This response could also be made public.

As mentioned in Composition above, we recommend that there be Director involvement in the Committee, which would facilitate ongoing, regular

communication between stakeholders and the Board on budget, fee and planning priority issues.

In relation to the documentation of the Committee's recommendations, we anticipate that AEMO would provide the secretariat function, given that this is the case with all working groups currently. However, given the role of the Committee, Committee processes would need to make clear the need for the secretariat to act on behalf of the Committee and independently of AEMO. This is particularly important given the potential for the Committee to make a recommendation that disagrees with AEMO's proposed budget.

Finally, as noted in Figure 3.2, the case studies indicate that finance committees may sometimes provide their recommendations to the ISO board in an indirect way (e.g. via another committee). Accordingly, we have considered whether it would be appropriate for the Committee to make its recommendation to the Risk and Audit Committee established by AEMO's Board. Given that the scope of the Risk and Audit Committee does not clearly include a focus on the preparation of the annual budget⁴⁸, we suggest that direct communication between the Committee and the Board may be more appropriate.

Recommendations 5: Communication

- **5.1** The Committee would provide a formal written recommendation to AEMO's Board on the matters within its scope.
- **5.2** The Committee process should require AEMO's Board to respond if they disagree with the recommendations of the Committee.
- **5.3** Committee minutes, recommendations and Board responses should be publicly available, subject to confidentiality.

⁴⁸ AEMO, *Annual Report 2019*, page 34.

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