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By email: david.swift@aemo.com.au

Friday 13 September 2013

Dear David,

AEMO Governance Review

GDF SUEZ Australian Energy (GDFSAE) appreciates the opportunity to comment on the Australian Energy Market Operator (AEMO) Governance Review Discussion Paper (discussion paper).

GDFSAE is wholly owned by GDF SUEZ S.A. and is a business line of GDF SUEZ Energy International. In Australia, the company owns and operates 3,500MW (gross) of renewable, gas-fired and brown coal-fired plants in Victoria, South Australia and Western Australia. GDFSAE also includes the second tier retailer Simply Energy which has more than 300,000 electricity and gas accounts in Victoria, South Australia and New South Wales.

The governance arrangements for AEMO are important to both industry and government in ensuring that the focus and priorities of AEMO are appropriately set and managed. As the independent market and system operator, AEMO's role is central to the overall effectiveness of the energy markets in providing secure and cost effective energy. It is therefore appropriate that AEMO review its governance arrangements and confirm that it continues to provide stakeholder confidence.

GDFSAE does have a concern regarding the process adopted by AEMO in undertaking this review of its governance. Whilst the discussion paper covers a good range of topics, it has been presented to stakeholders in the form of a set of conclusions already reached by AEMO, rather than items for discussion. For example, the AEMO discussion paper includes the following statement:

"The ownership mix and the skills based board selection process therefore provide value and confidence to the wide range of AEMO stakeholders. Combined with its not for profit and membership without equity status, these features of AEMO's corporate structure present a unique arrangement from a number of perspectives; the company operates in a way that is consistent with other Corporations Act companies, costs are minimised, and the full range of skills are brought to bear through membership of the Board."

Although GDFSAE might not disagree with the essence of this statement, it perhaps would have been more appropriate for AEMO to test these claims with its stakeholders, and seek to understand the extent to which its members and industry stakeholders share these views.

The concern that AEMO has already reached its own conclusions is exacerbated by the fact that AEMO has apparently already reported its findings to SCER.

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GDFSAE would have preferred a more inclusive process, which could have included a discussion paper outlining possible issues for comment, rather than conclusions reached.

GDFSAE have considered the points raised in the discussion paper, and provide the following comments as items for further consideration by AEMO.

Length of director term:

AEMO has proposed that the term of appointment for a director be increased. The main driver for this proposal seems to be that it takes some time for directors to come up to speed, and that it is therefore necessary for new directors to take some time to develop their knowledge. However the AEMO director skill matrix requires that directors have a mix of skills and experience, including NEM experience.

A longer appointment term could lead to a lack of energy and inspiration and reduced prospects for injection of new ideas to the board.

The implications for the board chair need to be carefully considered. Currently a director can be the chair for two terms of three years duration. If the AEMO proposals are implemented to increase the appointment term, the chair's term may be longer than at present. Consideration should be given to whether the chair should be rotated more frequently to ensure a fresh approach.

Selection Panel Process:

GDFSAE is generally supportive of the suggested changes to the appointment process, which would result in less reliance on a government appointed SCER panel. Having the board or a board committee propose nominations to the members for appointment may provide a more suitable industry / government balance.

Skills matrix:

The suggested addition to the matrix of skills and experience relating to customer interests may need further consideration. The core essential competencies such as power system and financial competence must not be compromised, as these are fundamental to providing stakeholders with the confidence that the energy markets are being well and objectively managed.

Consumer interests are increasingly well represented in the energy markets with the AER and SCER consumer groups having been established. It is not clear why AEMO needs to mirror these new groups by adjusting its board skills and experience. AEMO's core objective (to advance the NEO) should adequately meet consumer interests.

The proposed additional skills and experience relating to network businesses and IT systems should also be carefully considered. While it is acknowledged that AEMO is also a TNSP, the AEMO director skill matrix already includes a skill relating to IT, and the existing item for knowledge of the NEM and Gas markets may be sufficient to cover relevant network issues. It is preferable that the AEMO board avoid appointing directors with a focus on single issues, be it networks or consumers or IT.

Independent director:

The suggested change to slightly relax the definition of an independent director so that it more closely aligns with the ASX corporate governance literature would tend to create a larger pool of potential candidates, which is desirable. It also appears that the existing conflict of interest procedures are effective, so it may be reasonable to relax the definition as suggested.

Ownership:

AEMO has not proposed changes to the existing 40% / 60% ownership split between industry and government respectively. This is an issue of particular interest to AEMO industry stakeholders, and it is unfortunate that AEMO have made a recommendation on this without consulting more effectively with stakeholders. GDFSAE would have preferred that AEMO conducted a more thorough consultation on this issue to test attitudes, and then make a recommendation. If such a consultation were to be carried out, GDFSAE would have promoted the view that a greater level of industry ownership would be appropriate.

Working capital:

This is another area on which GDFSAE would have preferred to see wider consultation and discussion. There are some questions over the appropriateness of AEMO establishing and maintaining working capital to fund 'additional' work. For example, some stakeholders may have the view that AEMO should not venture into "out of scope" projects, unless approved by its members or by a majority of the industry representatives who fund AEMO. Although separate funds might be reserved for such work, it is still inevitable that any extra-curricular work undertaken by AEMO would divert resources away from other core tasks.

GDFSAE hopes that these comments are helpful to AEMO in its deliberations on this matter. If you would like to discuss these comments further, please do not hesitate to contact me on 03 9617 8331.

Yours sincerely,



Chris Deague
Senior Market Specialist