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Friday, 6 March 2026

Nigel Ray PSM  
Chair, Review of AEMO's Governance

Lodged online: <https://consult.dcceew.gov.au/aemo-governance-review>

Dear Nigel

## **Review of AEMO's governance**

Transgrid welcomes the opportunity to respond to the Terms of Reference and Discussion Paper for the review of the Australian Energy Market Operator's (AEMO) governance arrangements. AEMO's roles in Australia's energy systems have developed dramatically since its creation in 2009 and a review of the governance arrangements is timely.

Transgrid operates and manages the high-voltage electricity transmission network in NSW and the ACT, connecting generators, distributors and major end users. As the largest transmission network service provider (TNSP) in the National Electricity Market (NEM) and located centrally within it, we have an important role to play in delivering least-cost outcomes for consumers over the long-term through the timely connection of new renewable generation, supporting power system security and resilience, and ensuring that transmission services are delivered efficiently and reliably.

Transgrid works closely with AEMO on numerous issues and processes, with interactions occurring across our business. Based on our experience, we wish to highlight:

- The critical importance of AEMO having an independent corporate structure, to avoid impacting confidence in essential planning and forecasting outputs that guide investment decisions
- Improvements to AEMO's budget setting and cost discipline
- The fact that many of AEMO's key activities are prescribed by specific clauses in the National Electricity Rules (NER), beyond its own organisational governance (for example, the production of the Integrated System Plan (ISP)).

### **1. Safeguarding effective and independent governance**

Healthy markets produce the best outcomes for consumers by driving down costs and efficiently allocating risk. This principle underpins the design of the NEM. A prerequisite for such markets is the trust participants place in their integrity – specifically that outcomes are driven by market forces rather than by undue external influence. In the NEM's highly regulated environment, this trust depends heavily on confidence in the governance of the market operator, especially its independence.

The Discussion Paper seeks input on:

- Potential changes that may enhance the formal corporate legal structure of AEMO, acknowledging AEMO's evolving role and increasing influence as system planner, market operator and policy delivery body
- The extent to which current governance activities can effectively provide Governments with sufficient oversight on the performance of AEMO in meeting its objectives.

As the consultation paper notes, under AEMO's constitution, the exercise of AEMO's statutory functions is reserved to the Board, to the exclusion of the AEMO members (both Government and industry). AEMO's current legal form as a not-for-profit company limited by guarantee under the Corporations Act has delivered independent, impartial decision making and operational integrity across the power system and related markets, as well as longer term planning and forecasting functions.

Transgrid sees benefits in the current structure. The creation of, for example, a Government-owned corporation to assume some functions would need to be supported by deep and transparent industry involvement to avoid compromising its independence, both perceived and actual. Australia's energy transition requires institutions with deep technical capability that can operate confidently and transparently. Experience both in Australia and comparable jurisdictions consistently demonstrates that focused and independent governance frameworks deliver the best outcomes for consumers and industry. Whether in system planning or market operations, the ability of the operator's Board to make decisions free from political or commercial influence is the foundation of stakeholder confidence and effectiveness.

On this point, we note that institutions such as the Future Fund and the Clean Energy Finance Corporation (CEFC) demonstrate how independent Boards, operating within clearly defined statutory frameworks and under transparent oversight arrangements, can deliver substantial long-term public value. Overseas examples from comparable jurisdictions are also instructive, including the design of the UK's National Energy System Operator, which replaced National Grid on 1 July 2024, as a public corporation wholly owned by the Secretary of State, governed through an independent Board structure.<sup>1</sup> In the USA, Federal Energy Regulatory Commission (FERC) orders made between 1996 and 2000 put in place requirements for Independent System Operators and Regional Transmission Organisations to have independent Boards free of financial interests in market participants.<sup>2</sup> Similarly, the Alberta Electric System Operator and Ontario Independent Electricity System Operator have independent governance enshrined in statute and Board charters that require members to avoid conflicts of interest and operate independently of government direction.<sup>3</sup>

A well-designed independent Board model offers three critical advantages:

- **Access to deep technical expertise and specialised strategic capability.** Independence enables the appointment of directors with skills tailored to complex power system planning, risk management, security, and market design.

<sup>1</sup> UK Government, *NESO framework document*, 6 January 2025. Available at:

<https://www.gov.uk/government/publications/national-energy-system-operator-framework-document/national-energy-system-operator-neso-framework-document>

<sup>2</sup> FERC, *Regional Transmission Organisations/Independent System Operators*. Available at <https://www.ferc.gov/power-sales-and-markets/rtos-and-isos>

<sup>3</sup> AESO, *About corporate governance*, <https://www.aeso.ca/aeso/about-the-aeso/corporate-governance/>; IESO, *Board Charter and Code of Conduct*, July 2023. Available at: <https://www.ieso.ca/-/media/Files/IESO/Document-Library/corporate/governance/board-charter.pdf>

- **A clear mandate to provide impartial advice and long-term planning.** Independence, supported by transparent oversight, enables balanced planning, robust modelling and decision-making driven by system needs.
- **Credibility and accountability that reinforce investor and stakeholder confidence.** Appropriate conflict of interest protections and structured oversight frameworks help maintain trust and support efficient investment in the network and generation infrastructure that is required to complete the energy transition.

The success of any governance model is contingent on ensuring that Board members are chosen for their expertise, their impartiality, and their ability to act in the long-term interests of the energy system and consumers.

## 2. Improvements to AEMO's budget setting process and cost discipline

Transgrid participated in AEMO's recently completed fee structure determination process, including making formal submissions in May and November 2025.<sup>4</sup> Two issues raised in that process are of relevance to this review and highlight the need for transparency and accountability in how AEMO defines its roles, prioritises its work and allocates resources:

- **Five- to seven-year budgets:** AEMO should provide fixed forward budgets, or at least forecasts, for five to seven years ahead. Such an approach would allow TNSPs to have the reasonable opportunity to recover these costs properly as part of their AER revenue proposals. The level of AEMO's fees has changed significantly over the recent past. For Transgrid, this has grown from \$10.7m in FY24 to \$17.7m proposed for FY27. This reflects an annual growth rate of 18% over that period. A new participant fee structure has been determined for the five years from 1 July 2026, however the five yearly-cycle does not align with most NSPs five-year revenue period. Networks face cashflow risk if forecasts are inaccurate and cause negative impacts, in turn increasing costs that are ultimately passed on to consumers. A seven-year budget cycle would help mitigate, although not alleviate this issue. Greater budget stability would also help ensure AEMO's work program is planned efficiently and that projects are properly resourced and delivered in a timely manner.

The volatility in AEMO participant fees is a priority issue for TNSPs, to the extent that the Energy Networks Australia are developing a rule change proposal that enables each TNSP to recover all its allocated participant fee costs as notified by AEMO through transmission pricing adjustments annually.

- **Greater visibility, accountability and influence:** The Financial Consultation Committee (FCC) was established in 2021 to improve transparency of the development of AEMO's budget and fees, as well as AEMO's financial health and performance. Transgrid acknowledges that the FCC can play an important role in building stakeholder confidence that AEMO is operating cost-effectively and growing stakeholder understanding of the budgeted fee impacts. However, it is not clear that FCC feedback has had a meaningful impact on AEMO's budgeting process. Contrary to the Australian Energy Market Commission's (AEMC) view that "TNSPs have the ability to influence AEMO's total costs through their participation in a wide range of forums",<sup>5</sup> in our experience TNSPs have little influence on total AEMO costs through the FCC or other forums such as Connection Reform Initiative, National Electricity Market Operations Committee and others. As a result, there is merit in strengthening oversight of AEMO's total costs and forward work program through:

<sup>4</sup> Submissions available at: [www.transgrid.com.au/media-publications/public-submissions/](http://www.transgrid.com.au/media-publications/public-submissions/)

<sup>5</sup> AEMC, *National Electricity Amendment (Recovering the cost of AEMO's participant fees) rule 2022*, 20 October 2022, page 16. Available at: <https://www.aemc.gov.au/rule-changes/recovering-cost-aemos-participant-fees>

- Clearer articulation of AEMO's priorities and how they are set
- Transparent resourcing assessments for major initiatives
- Improved reporting on delivery of work program commitments
- Stronger processes for incorporating stakeholder input early in planning cycles.

As AEMO's size and cost to consumers increases, cost discipline becomes increasingly important. There is merit in the cost of AEMO's NEM functions being scrutinised and approved, as they currently are for AEMO's operations in Western Australia by that state's Economic Regulation Authority.<sup>6</sup> Depending on AEMO's structure, either the Australian Energy Regulator or the Australian Government Department of Finance could appropriately fill such a role. Transparency and accountability would also be enhanced if work programs were linked more clearly to a costed corporate strategy that was subject to FCC review.

Finally, we recommend reforms that serve to improve the transparency and quality of AEMO's cost-benefit analysis (CBAs). Given AEMO's influential role in planning and operational decision-making, robust CBAs are a critical accountability mechanism. Enhancements in methodology, documentation, and responsiveness to stakeholder challenge would help ensure stakeholders have confidence that AEMO's initiatives are in consumers long-term interests and aligned with national planning requirements.

### **3. Regulations prescribe key elements of AEMO's activities**

Transgrid notes that AEMO's critical activities are prescribed in detail across a complex regulatory framework. The most illustrative example here is the approach to the ISP which is specified in the NER and various guidelines. The AEMC is currently considering a rule change proposal to specify key elements of AEMO's approach that would see the ISP produce specific outputs (in particular, a comparison of the cost of a range of government policies). While Transgrid does not support the specific change,<sup>7</sup> we agree that the proposal reflects the benefit of the ISP fully considering and modelling the full range of plausible future scenarios, including the failure to achieve government clean energy policies in full and on time. While AEMO has changed to the scenario set, support for the draft ISP 2026 is increasingly qualified.

If you require any further information or clarification on this submission, please feel free to contact Alex McPherson, General Manager of Regulation and Policy, via [alex.mcpherson@transgrid.com.au](mailto:alex.mcpherson@transgrid.com.au).

Yours sincerely

Nadine Lennie  
**Chief Financial Officer**

**Member: AEMO Financial Consultation Committee**

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<sup>6</sup> AEMO's allowance revenue is determined by the Economic Regulation Authority of WA. For further information see: <https://www.aemo.com.au/energy-systems/electricity/wholesale-electricity-market-wem/wa-allowable-revenue/about-the-allowable-revenue-process>

<sup>7</sup> See Energy Networks Australia (ENA) submission to the AEMC's Consultation Paper for the *Clarifying the Treatment of Jurisdictional Policies and system costs in the ISP*, 6 November 2025, available at: <https://www.aemc.gov.au/rule-changes/clarifying-treatment-jurisdictional-policies-and-system-costs-isp>