

20 October 2017

John Pierce
Chair, Australian Energy Market Commission

Five Minute Settlement – Draft Rule Determination

Dear Mr Pierce,

I refer to the Draft Rule Determination for the *National Electricity Amendment (Five Minute Settlement) Rule 2017* on 5 September 2017 (the Draft) by the Australian Energy Market Commission (AEMC).

I am writing to provide Energy Consumers Australia's support for all aspects of the Draft. As you know Energy Consumers Australia was involved in the Working Group formed for this project and the Public Forum.

In our submission on the Directions Paper we noted that the work of the AEMC had demonstrated that the proposed rule is likely to contribute to the achievement of the National Electricity Objective. Energy Consumers Australia has been disappointed to see the Australian Energy Council (AEC) in its submission to the Directions Paper argue that the AEMC needs to undertake a cost-benefit analysis. This is not the standard required for the AEMC to make a Rule.

The AEMC has, however, in the Draft provided a very simple cost-benefit analysis that identifies how little ongoing marginal saving is required in the \$16.6 billion wholesale electricity market to compensate for the one-off adjustment costs.

In our submission we also agreed that the Discussion Paper had made the case for a transition period of not less than three years. We have been disappointed that the AEC and many of its members have not acknowledged the need for change, or where they did, have not assisted the AEMC by identifying a transition strategy.

For example, ERM Power wrote "Aligning dispatch and settlement makes sense from the perspective of economic theory, and over the long term will be a necessary evolution for the market." ERM however went on to argue that a transition period would not reduce risks of the rule change to an acceptable level and listed a series of market developments required before the rule change should be considered. The AEC was less robust in its support for the principle, but also listed a number of market developments required before the rule change could be considered, including the development of new contracts.

This position ignores the incentives for participants to make the changes required as 'preconditions.' The purpose of the transition period is not only to provide time for IT and system changes. It also provides the clear signal that the market arrangements will change and the time for parties to make those changes.

Energy Consumers Australia believes that the AEMC has adequately considered these requirements and that the transition period is sufficient to enable these changes.

We also note that since the Draft was issued, the Energy Security Board has provided advice to the COAG Energy Council on a mechanism (the National Energy Guarantee) to provide maintain system security and reliability at least cost while we continue to transition to a lower emissions system. The National Energy Guarantee (NEG) is proposed to operate through the contract market, with retailers required to enter into contracts to meet reliability and emissions targets.



The NEG therefore would result in significant changes to the contract market. It is Energy Consumers Australia's preliminary assessment that this sequencing can be accommodated, and that the NEG will be enhanced by alignment of dispatch and settlement.

If the timing of the implementation of the NEG is presumably tightly tied to the expiry of the RET (2020) this will occur before the move to Five Minute Settlement. The issue of alignment needs to be further considered.

In our submission on the Directions Paper we suggested the need for "a governance framework to ensure that the developments required to support five minute settlement are occurring." This suggestion was in part based upon recent experience with the implementation of metering contestability, the last major piece of the *Power of Choice* reforms. The submissions by the AEC and a number of its members note a number of market developments required to ensure that five minute settlement does not disrupt system security.

In the Draft the AEMC has responded to this suggestion, writing "If the Commission makes a final rule that reflects the draft rule, AEMO will likely undertake market readiness planning and implementation. This is reflected in section 8.5 of AEMO's High level design document that accompanies this report." We are concerned that the scope of this 'readiness' testing is limited to system readiness testing six months out from the implementation date. It is necessary but not sufficient readiness and implementation planning.

Among other specific concerns, Energy Consumers Australia notes that despite a long lead time market participants may all decide to wait till the last moment to commence their IT and metering projects. A governance framework can monitor and report on participant preparation.

We acknowledge that there is no normal mechanism whereby the AEMC can institute a governance framework in conjunction with a rule change. We also note that since the Discussion Paper the Energy Security Board has been formed and that part of its obligation is annual reporting on the *Health of the NEM*. Progress on preparation for the settlement change should at the very least be included in that report.

Energy Consumers Australia also notes the analysis conducted by the AEMC on the significance of different implementation dates. In hindsight we have observed that 1 December as far from the ideal date for metering contestability. We agree that 1 July 2021 is free from holiday and other risks and that it usefully aligns with contract rollovers.

We commend the AEMC on the thoroughness of its approach to this Rule Change Request. The decision proposed in the Draft demonstrates that the AEMC does properly consider the changing nature of the electricity system and the need for considered reform.

Yours sincerely,

Rosemary Sinclair
Chief Executive Officer