

Five minute settlement

Submission in response to the AEMC Consultation Paper

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Energy
Consumers
Australia



Introduction	3
Aligning bidding and dispatch intervals	3
Costs and benefits.....	4
The challenge of engaging in wholesale market issues..	4
Conclusion	5

Introduction

Energy Consumers Australia (ECA) welcomes the opportunity to provide comment on the Australian Energy Market Commission's (AEMC) consultation paper *Five minute settlement* (the Consultation Paper). The Consultation Paper is the first step in the public consultation for a rule change proposed by Sun Metals that seeks to align dispatch and settlement intervals in the wholesale electricity market.

The rule change seeks to address the problem of generators gaming the current arrangements by creating price spikes in wholesale prices at the start of half-hour trading intervals and then lowering their bid price to zero so that their output is more likely to be dispatched. When the price for a half hour period is calculated, this bidding behavior creates distorted outcomes that increase prices above efficient levels. While the small business and residential consumers are not directly exposed to the wholesale market, the efficient functioning of that market is important for ensuring that those consumers pay no more than is necessary for their electricity services. The National Electricity Law requires that such markets operate in the long term interest of consumers.

The rule change addresses a problem that has existed for many years but has not been satisfactorily resolved. Accordingly, ECA welcomes the proposed rule change. Any amendments that increase the rigor of the wholesale market and drive more efficient behavior from generators are in the long term interests of consumers.

Aligning bidding and dispatch intervals

ECA believes that there is a good prima facie case for aligning bidding and dispatch intervals in the wholesale market. However, ECA does not have a strong view as to whether the interval in question should be five, 15 or 30 minutes (all of which are being considered). However, this rule change process presents a good opportunity for rigorous analysis of the options to be undertaken to find the alternative that is most in the LTIC. ECA's expectation is that given technological advancements, shorter intervals are likely to be both feasible and to deliver more efficient market outcomes in the LTIC. It is up to the AEMC, in consultation with AEMO, to consider the practicalities of any such changes as part of this rule change process.

Costs and benefits

ECA notes that in the case of reforms such as that in question, it is much easier to identify the costs of any changes than the benefits. This is because the costs of implementing system changes are generally immediate, while the benefits are revealed over time. In the case of small consumers who are not directly exposed to the wholesale market, the benefit of the proposed amendment will be seen over a longer term, as more efficient outcomes slowly reduce prices. However, this does not mean that the value of the benefits is reduced overall. This difference in time scales also poses a challenge for the AEMC in assessing how the costs and benefits of different options stack up against each other.

To aid in this task, ECA submits that the AEMC should seek rigorous cost estimates from wholesale businesses and interrogate these numbers carefully. ECA would have grave concerns about the AEMC taking at face value cost estimates from businesses who are not interested in market reform.

ECA also notes that a more efficient wholesale market will send stronger signals to consumers and the market about the adoption of new energy services, such as direct load control and demand response. While individual consumers will not be able to respond to short term price signals, an evolving market of aggregated consumer demand combined with delegation by consumers of aspects of their demand control does mean that market offerings can reflect the move to more efficient wholesale markets.

The growth of a dynamic services market is firmly in the long term interests of consumers and the AEMC has a responsibility to pursue such an outcome. To this end, ECA submits that the AEMC should carefully examine the secondary benefits of aligning dispatch and settlement periods as part of its deliberations.

The challenge of engaging in wholesale market issues

This rule change raises a number of highly technical questions about the operation of the wholesale markets. Small business and residential consumers and their advocates cannot be expected to engage in the technical details of these market processes and understand the implications of any changes. They can, however, express a view on the preference between different outcomes derived from different choices.

Therefore, ECA submits that the AEMC should produce information on and analysis of different options for a potential rule change and the trade-offs between those options. If the draft determination for this review were to contain clear discussion of the consumer and market impacts of different options, this would allow stakeholders to make more informed decisions about what represents the long-term interest of consumers.

ECA also notes that a move to five-minute settlement for retailers who currently settle half hourly is likely to result in a financial residue. ECA would want to understand the mechanism by which any potential residue that remained or was created by the transition to the new arrangements and calls on the AEMC to address this issue in its draft report.

Conclusion

ECA welcomes the proposed rule change, which addresses wholesale market design issues that have been highlighted as having a negative impact on efficient outcomes in the LTIC. While ECA is not well placed to nominate the time period over which bidding and settlement should be aligned, the general progress of technological change would seem to enable shorter periods for settlement than the current 30 minutes.

ECA encourages the AEMC to produce a comprehensive analysis of the trade-offs and consumer impact of different rule changes that are being considered. This will allow consumer advocates to better engage with the process and submit their views on which approach is most in the long term interest of consumers.

Once again, ECA thanks the AEMC for the opportunity to provide comment on the Consultation Paper. If you would like to discuss anything related to this issue further, please contact Chris Alexander, Director of Advocacy and Communications, on 02 9220 5506 or chris.alexander@energyconsumersaustralia.com.au.



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