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16 June 2016

John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

**Re: Submission on National Electricity Amendment - Five Minute Settlement (Consultation Paper)**

The AER welcomes the opportunity to respond to the AEMC's consultation paper concerning the Five Minute Settlement rule change proposal.

We support the AEMC's investigation of the costs and benefits of implementing the changes proposed by Sun Metals Pty Ltd (Sun Metals) with respect to aligning the dispatch and financial settlement intervals in the National Electricity Market.

Settlement arrangements that more accurately reflect the value of supplying or consuming electricity at different times within a 30 minute trading interval will improve market signals. The alignment of the timing of settlement and dispatch should enhance competition by more accurately reflecting participant behaviours in their market revenues, valuing flexibility and responsiveness that may encourage new technologies and more directly reward demand side response. Together, we consider that this will ultimately benefit consumers and producers alike.

The use of SCADA to profile 30 minute metered energy is a pragmatic, low cost solution that could be quickly implemented for all generators and for the potentially significant number of demand side participants that may choose to opt-in to five minute settlement. AEMO may need procedures to manage the finer points of settlement based on SCADA.

The consultation paper asks whether other data sources, such as dispatch targets, would be preferable to SCADA profiling. We note that since five minute settlement may increase financial incentives on generators to not follow dispatch instructions, alternatives for prorating 30 minute settlements that reduce that incentive should be

considered. In our submission to the compliance with dispatch instructions rule change proposal, we raised a "pay-as-per-target" approach where participants are paid in accordance with the lower of their target or actual generation for prices greater than zero and the higher of their target or actual generation for prices less than or equal to zero.<sup>1</sup>

The recovery of possible settlement residues from demand side participants that continue to be settled on a 30 minute basis will encourage participants to opt-in. While settlement residues would not be accrued if all demand side participants were to participate, in some cases, the cost of participating may exceed individual benefits. From a market perspective, increased demand side participation in five minute settlement should increase competition and lead to further benefits to all consumers over time.

We note that a number of markets around the world are addressing the same issue and in general have concluded that there are benefits in aligning settlement and dispatch timeframes. Lessons from this work may be of value to the AEMC when assessing the cost and benefits.

Please contact Peter Adams, General Manager of Wholesale Markets, on (03) 9290 1465 or Craig Oakeshott, on (08) 8213 3469 if you would like to discuss any aspect of this submission.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'P Conboy', is positioned below the text 'Yours sincerely'.

Paula Conboy  
Chair  
Australian Energy Regulator

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<sup>1</sup> AER, AER Submission: Compliance with Dispatch Instructions rule change consultation paper, October 2015, p. 8.  
Link to submission: <http://www.aemc.gov.au/getattachment/c0db4289-6230-4f1d-b6ba-f899b906e124/AER.aspx>.