

May 2017

# Five Minute Settlement

AEMC Public Forum

Costs & price impacts

# Costs of implementing 5 minute settlement

## Cost categories

- Costs of re-negotiating ISDA and other contracts
- Costs of changes to business systems
- Costs to AEMO and third parties
  
- Price impacts – costs to customers

# Costs of implementing 5 minute settlement

## Contract re-negotiation

- Based on discussions with businesses estimated number of contracts > 3 year term

Note: High proportion of these > 10 years

- Categorized contracts into:

- Standard – using standard ISDA terms and conditions – changes agreed with AFMA and applied
- Be-spoke – ISDA based but with be-spoke terms and conditions – will require some re-negotiation
- Large – with a wider range of specific terms and conditions – e.g. smelter supply contracts

Category	Standard	Be-spoke	Large
No of contracts	97	54	15
Cost per negotiation	\$5,000	\$50,000	\$300,000
Cost of collective negotiation with AFMA	\$600,000		
Total costs	\$1,085,000	\$2,700,000	\$4,500,000

- Total costs of approximately \$M 8.3

Note: a transition period of up to 3 years and potentially longer does not avoid these costs

# Costs of implementing 5 minute settlement

## Changes to business systems

- Businesses will require major changes to:
  - Wholesale market trading systems
  - Retail customer management systems
  - Risk management and reporting systems – often a complete re-write
- Cost estimates based on input from a wide range of affected businesses

System	Wholesale trading	Retail	Risk management
Range of cost estimates	From \$1M to \$15M	From \$0.5M to \$15M	From \$0.1M to \$5M
Total costs	\$54M	\$73M	\$23M

- Total transition costs of approximately \$M 150
- Ongoing increased costs of approximately \$M 7 per annum
- Present value of costs over 15 years @ 5% discount rate – approximately \$M 200

# Costs of implementing 5 minute settlement

## Other costs & overall total

- AEMO will incur transition costs
  - Estimate in the order of \$M 10
- Third party service providers will also incur costs:
  - Consultants that will need to update market models
  - ASX changes to contracts and trading systems
  - Businesses that provide information services - such as real time data – will need to change systems
- Reasonable estimate of present value of total costs would exceed \$250 million
- It is unlikely that a transition period will mitigate these costs materially

# Costs of implementing 5 minute settlement

## Price impacts

- Static analysis indicates a small price increase - \$M 17 per annum
- Cap premiums will increase

Increase in fair value – based on 2012 to 2017 historical data

Region	NSW	Vic	Qld	SA
Increase	23%	39%	41%	59%

- Spot price volatility is expected to increase – resulting in higher prices to customers