

Monday, 27 June 2016

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235
Lodged Electronically

Dear Mr Pierce,

**RE: ERC0201 Five Minute Settlement Rule Change, Consultation Paper
Submission**

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia. We represent and work with hundreds of leading businesses operating in solar, wind, energy efficiency, hydro, bioenergy, energy storage, geothermal and marine along with more than 4,000 solar installers. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

Electricity markets are rapidly changing. The increasing prevalence of embedded generation is already having a dramatic influence on the wholesale market, and energy storage will further enable these technologies to move from passive to active market participants.

The CEC agrees with the Commission that the technology available at market start dictated the market design. Although this rule change refers to the 5/30 minute arrangements for settlement and dispatch, the CEC believes these design assumptions are leading to systemic barriers to new technologies and need to be revisited. Fundamentally, a changing market should be refocussed towards customer outcomes, given customer preferences are the main driver for the deployment of new technologies.

The consideration of the proponent's request on the basis of resolving strategic bidding practices is a somewhat concerning distraction. Strategic bidding will remain a characteristic of any market and it is appropriate that a regulatory response is relied on to resolve this. The implementation and operation of the Rebidding in Good Faith Rule Change needs to play out

before passing judgement on its success or failure. Given this, the Commission should be viewing a potential move to 5 minute settlement purely on the basis of energy and ancillary services market benefits, and removing barriers to entry by new (mostly small scale) technologies.

Market design will always have inherent trade-offs. A market reform of this significance will undoubtedly create new inefficiencies. For example, (through averaging across the dispatch intervals) the market largely relies on the 30 minute settlement to protect market participants from the costs of dispatch intervals at the market price cap. The proposed changes would expose generators and retailers to significantly increased price volatility (risk), increasing the costs of supply overall. Further, there will be material issues with transitioning a contract market to accept these increased risks.

The CEC notes that the proponents have not provided evidence of the benefits of moving away from 30 minute settlement. This makes it very challenging to measure how the proposed changes would better promote the efficient investment in and use of electricity services with respect to the price of electricity. Moving generators to obligatory 5 minute dispatch would undoubtedly create costs that are hard to reconcile against theoretical benefits. This indicates that the proponent's proposed solution may not be the right solution to retrofit to the established NEM.

Despite this, the CEC's view is that the Commission needs to consider the merits of making this change in more detail. The technology mix that underpins the electricity market is rapidly changing and the incumbent regime is likely to create barriers to the efficient use of small scale technologies or small generator aggregators. In addition, a more granular settlement system may increase the efficiency of ancillary services in a market where many small, fast acting, devices are deployed (such as battery systems).

In summary the CEC requests that the Commission use this rule change process to undertake a more comprehensive assessment of the merits of moving to a 5 minute settlement in the future. The next stages of this rule change should consider:

- Current barriers to entry and whether they could be resolved by 5 minute settlement;
- Whether alternative mechanisms (aggregation for example) are more appropriate given established NEM practices;
- Benefits of moving ancillary services to a reliance on 5 minute settlement;
- Based on a cost-benefit assessment of options, identification of a preferred mechanism for 5 minute settlement that interfaces with established NEM systems in a least-harm manner, and;

- Low impact transition plans that move the market towards a preferred 5 minute settlement regime (optional 5 minute dispatch for example).

Despite the evident challenges associated with the proponent's proposed changes the CEC supports market reforms that encourage the participation of new small scale entrants in the energy and ancillary services markets. We encourage the Commission to consider how this issue can be addressed through a more comprehensive assessment of the costs and benefits of available options, rather than adhering to that proposed by the proponent.

Please contact the undersigned for any queries regarding this submission.

Sincerely,

A handwritten signature in blue ink, appearing to read "Tom Butler".

Tom Butler

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