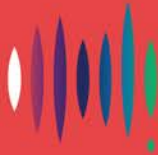


5 Minute Settlement Materiality

AEMC Public Forum
May 2017




ENERGY
CONSUMERS
AUSTRALIA

1

Energy Consumers Australia

Our Role and Position

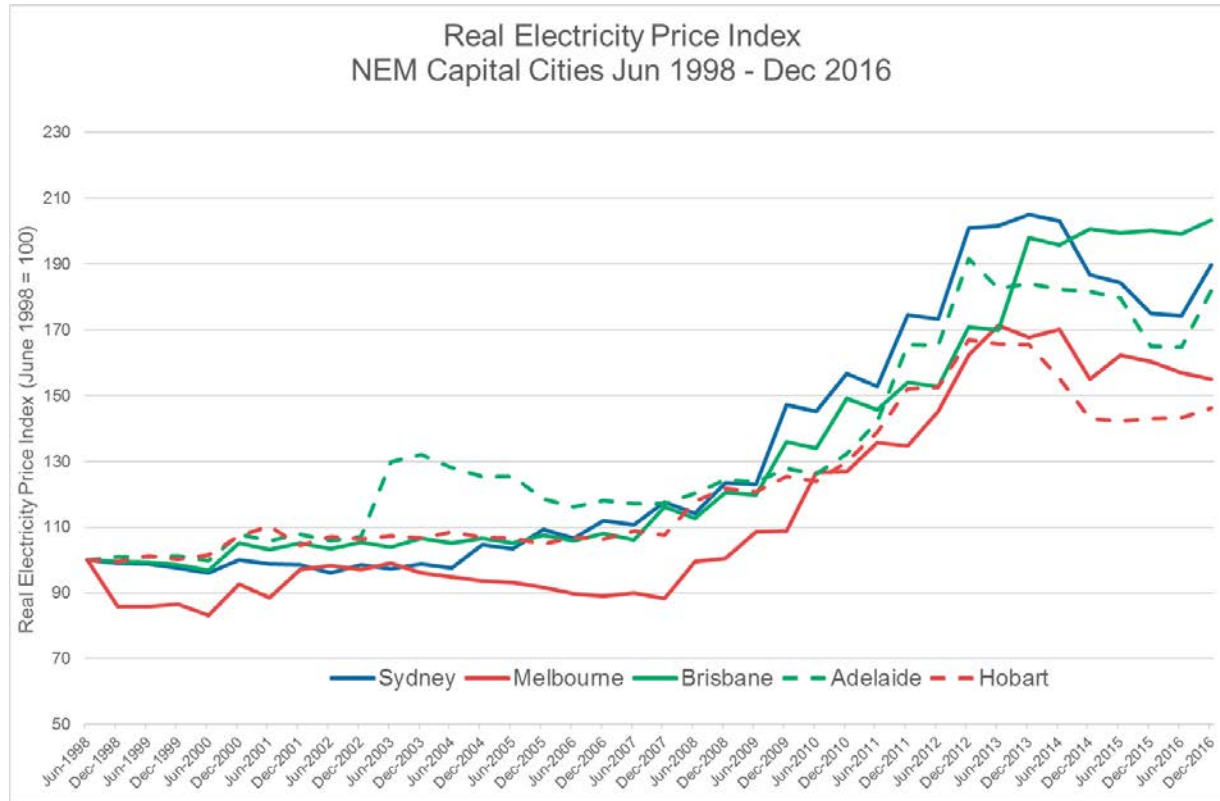





“To promote the long term interests of consumers of energy with respect to the price, quality, safety, reliability and security of supply of energy services by providing and enabling strong, coordinated, collegiate evidence-based consumer advocacy on National Market matters of strategic importance or material consequence for Energy Consumers, in particular Residential Customers and Small Business Customers.”

Energy Consumers Australia Constitution

Electricity prices are heading in the wrong direction





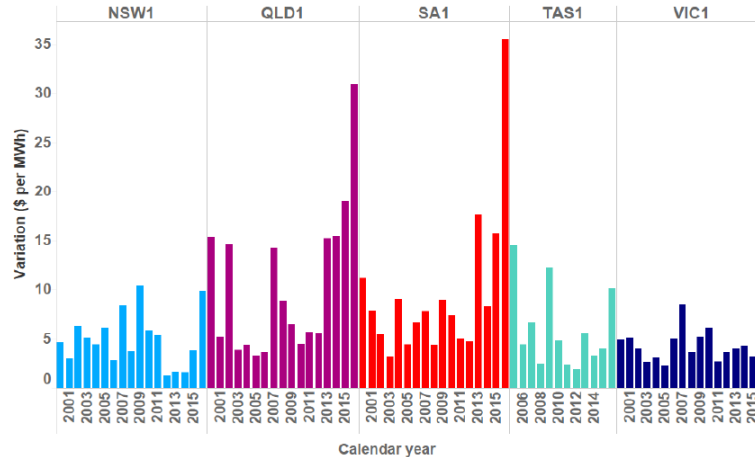
“It's not performing well at all. No other services have increased in cost like electricity has done over the last few years. And we don't have anything to show for those increases.”

*Consumer response to Energy Consumers Australia
ECSS qualitative phase April 2017*

Variability between 5 and 30 minute prices is growing



Figure 3.2 Average annual variation by region (2009 to 2016)



Variability in prices adds to uncertainty. A function of the total market is to manage uncertainty for consumers – but that comes at a cost.



*“A journey of a thousand miles
begins with a single step”*

Laozi/Lao Tzu c. 550 BCE

2

Materiality Basis and AEMC Assessment



The AEMC's task



Subdivision 2—Rule making tests

88—Application of national electricity objective

- (1) The AEMC may only make a Rule if it is satisfied that the Rule will or is likely to contribute to the achievement of the national electricity objective.
- (2) For the purposes of subsection (1), the AEMC may give such weight to any aspect of the national electricity objective as it considers appropriate in all the circumstances, having regard to any relevant MCE statement of policy principles.

This hurdle is a lot lower than some people think.

The AEMC does not have to have a detailed estimate of costs and benefits —

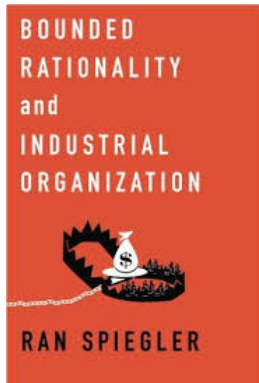
but it isn't just the 'vibe.'

The pesky word 'efficiency'



Efficiency and Innovation

- Static efficiency and dynamic efficiency – the importance of change and innovation
- Barriers to innovation:
 - Regulatory structures that perpetuate existing processes
 - Behavioural biases – the bounded rationality of corporate actors



“With five minute settlement it would be expected that incentives would change, resulting in different bidding strategies and responses by generators.” AEMC

How did we get here



Developing pool markets

- Pool markets replicated the merit order process used by the state electricity commissions
- Choices on key elements (5/30) were driven pragmatically not theoretically
- Financial markets evolved to support the market structure

Pigs weren't designed to create a market in pork belly futures.

Strong in principle efficiency arguments



Current arrangements

- Create incentives for generators to
 - Bid below marginal cost
 - Generate at times not physically valued
 - Behave in a way to create artificial volatility and risk
- The mismatch between dispatch and settlement can be expected to stifle the operation of fast response technologies that can respond over a dispatch interval.

A market in transition



Changing generating fleet and changing demand

- It is unrealistic to expect market rules to remain unchanged through a transition
- There seems to be no doubt of the need to change to
 - Align despatch and settlement intervals
 - Have a shorter settlement interval (30/30 isn't an option)
- The question isn't **if** to make the change, it is **when and how**



“The best time to plant a tree was 20 years ago. The second best time is now.”

Chinese Proverb

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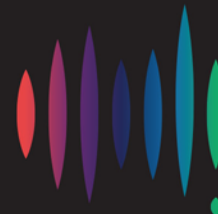
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