stanwell

11 June 2020

Mr Andrew Pirie
Project Leader
Australian Energy Market Commission

Submitted via website: www.aemc.gov.au/contact-us/lodge-submission

Dear Mr Pirie

Delayed implementation of five minute and global settlement

Stanwell appreciates the opportunity to provide feedback on the Australian Energy Market Commission's (AEMC's) National Electricity Amendment (Delayed Implementation of Five Minute and Global Settlement) Rule 2020 Consultation Paper.

This submission contains the views of Stanwell Corporation Limited in relation to the interim reliability measures information provided to date and should not be construed as being indicative or representative of Queensland Government policy.

1. Introduction

Stanwell acknowledges the work the AEMC, Australian Energy Market Operator (AEMO) and other regulatory bodies are undertaking in consultation with industry to identify options to alleviate pressures industry is facing as a result of COVID-19 and the large market reform program that is underway. The market bodies regulatory prioritisation process that has been underway since April has highlighted the sheer volume of regulatory reform and implementation that the energy sector is facing over the next three to five years. Stanwell supports the continuation of this process to identify further opportunities to improve the coordination of market reforms and defer initiatives where possible.

While the proposal to spread costs away from the peak effect of COVID-19 measures on cashflow has prima facie appeal, Stanwell consider that there are likely to be better ways to achieve this outcome. In particular, delaying or grouping changes which have not commenced or are in their early stages is likely to have more benefit at less cost than changing the scope and timing of a major in-flight project such as five-minute settlement (5MS) and global settlement (GS).

Any decision to delay the implementation of 5MS and GS will have cost implications for Stanwell, but we do acknowledge the extenuating circumstances that has led to the proposed rule change. If there is evidence that a significant number of industry participants' delivery programs are at risk, we accept that a delay may be a more efficient

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overall outcome to the economy, despite the expected cost impact to Stanwell and other participants whose programs are on track to meet the original implementation date.

Our response to the questions posed in the stakeholder feedback form about the proposal to delay to the implementation of 5MS and GS by 12 months are at Attachment 1 for your consideration. In addition to the answers provided in that form, Stanwell would like to take this opportunity to provide some additional feedback and suggestions on the proposed rule change, as outlined below.

2. Cost impacts of delayed implementation

Stanwell's 5MS and GS implementation program is on track to be ready for go-live on the current planned date. We have engaged a significant number of staff, contractors and suppliers for the sole purpose of upgrading and re-engineering systems to conform with the regulatory change. Any delay to the go-live date for 5MS and GS will result in extended engagement of resources to mitigate go-live risks to our business at additional cost.

Confidential: Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA) and sections 31 and 48 of the National Electricity Law.

The estimated cost impact of the proposed extension of 12 months would be an approximate increase of [redacted] to our original project cost. While this impact could be reduced to an extent by a shorter delay period, any delay beyond the current go-live date will result in additional cost to Stanwell.

Based on the discussion during the stakeholder briefing held on 21 May 2020, this would also appear to be the case for a number of other industry participants. Industry's development and implementation programs are well underway and tracking positively against project milestones. This is evidenced in AEMO's 5MS GS Market Readiness Report 2, released on 7 May 2020. It is highly likely that many industry participants would not be able to put their programs on hold without incurring additional costs.

Having noted the above, Stanwell's understanding is that AEMO have lodged the rule change request on behalf of unidentified market participants for whom the COVID-19 pandemic and its associated regulatory impositions has increased calls on short term funding and therefore delivery risk. To the extent that the AEMC is aware of a significant volume of such market participants facing delivery risk, Stanwell accepts that the imposition of additional cost on the industry relating to this delay may be an efficient cost overall to the economy.

3. Delay timeframe options

Stanwell does recognise that COVID-19 is impacting some energy industry participants harder than others, particularly in the energy retail market, and there is support for a delay of some period from those industry participants. However, Stanwell suggests that if a delay to the start of 5MS is considered necessary the options of a three-month delay or progressive implementation be considered by the AEMC.

A three-month delay may provide some relief for participants whose project timeframes have been affected by resource and financial impacts from COVID-19, while minimising negative impacts to those whose programs are still on-track.

A progressive implementation would provide relief to relevant participants by delaying elements of direct concern to them while allowing other participants to go live with unaffected elements. As an example, if the relevant participants are small retailers, 5-minute bidding may be able to commence while 30-minute settlement is retained for a period of time. Similarly, publication of additional data such as 5-minute pre-dispatch sensitivities (while not part of the Rule) appear able to proceed ahead of changes to the settlement functionality.

Only if the impacts to a significant number of energy businesses is determined to be material and longer-term in nature, would a 12-month delay period proposed by AEMO be appropriate.

We strongly advise against any consideration of a six or nine-month delay to the project implementation, especially in relation to bidding system changes. Both delay periods would conflict with the summer heightened-risk period which is traditionally difficult for major system changes.

In undertaking its analysis of the proposed rule change, we encourage AEMC to perform a comparative cost-benefit analysis of a three-month delay to the proposed 12-month delay. It is possible that the shorter delay period would have a comparative benefit to the current proposal for the industry and its customers.

Stanwell also encourages the AEMC and AEMO to identify options for systems currently under development to go live in line with the current timeframe where it would not negatively affect participants. For example, if the proposed delay is primarily aimed to assist retailers, then it may be possible for 5-minute bidding to go live as scheduled while settlement and billing functions are deferred.

4. Interaction of 5MS and GS with other reform initiatives

There are numerous initiatives both proposed and underway that interact with the same systems that are being developed or changed to implement 5MS. This includes the Wholesale Demand Response Mechanism and some retail reform initiatives, such as reducing customer switching times, Energy Consumer Data Rights and the MSATS Standing Data Review. Many of these initiatives also rely on or interact with 5MS for the benefits of those reforms to be maximised.

Both prior to and during the market bodies regulatory prioritisation forums held on 22 April and 8 May 2020, industry has advocated that wherever possible, those programs be pushed out until after 5MS is completed. This will help avoid industry participants having to rescope changes to systems that are already under development as part of the 5MS program. Having to rescope system changes mid-project would be extremely complex, adds additional risk, and ultimately adds unnecessary cost.

Stanwell requests the AEMC to consider the impacts of delaying 5MS and GS on these other reform program’s development and implementation timeframes and stated objectives and benefits. Consideration should include the industry’s ability to accommodate overlapping system change requirements and the additional implementation risks that this introduces.

5. AEMO work program

If a decision is made to make the rule change, regardless of the period of the delay, it is imperative that AEMO’s 5MS work program is delivered as currently scheduled. This will allow Stanwell and other market participants that are on track to meet the original development and testing deadlines to continue as per the original schedule and minimise the additional costs arising from retaining the resources required to complete the project over a longer duration.

Any delays to AEMO's program would impact both resourcing and costs for industry participants over and above the impacts from a delay to the program implementation date. To give an example of the impacts that a delay from AEMO can have on industry participants programs, AEMO has deferred the release of their pre-production environment from August to November. While Stanwell is close to being ready to deploy its 5-minute capable bidding software, as a result of AEMO's delay our software release will now have to be put on hold, expert resources retained and both the 5 and 30-minute versions of the software maintained for any rule changes occurring in parallel.

6. Conclusion

Stanwell recognises that COVID-19 has had significant impacts on our industry, and appropriate measures by the market bodies to accommodate and minimise these impacts is welcomed. However, Stanwell questions if a delay to 5MS and GS implementation would actually provide a net benefit to industry participants and their customers, particularly relative to reprioritisation of smaller or not yet commenced projects. If a delay is determined to be beneficial, it should be kept to the minimum time period necessary in order to minimise overall cost to industry participants, particularly those whose programs are on track to be ready for go-live on the current planned date.

Finally, if the rule change is made it is imperative that AEMO's 5MS work program is delivered as currently scheduled so participants that are able to can continue development and testing programs as per the original schedule and budget.

Stanwell welcomes the opportunity to further discuss the matters outlined in this submission. Please contact Ian Chapman on (07) 3228 4139.

Yours sincerely

Ian Chapman
Manager Market Policy and Regulatory Strategy

Attachment 1 – Stanwell's Stakeholder Feedback Template

AEMC

ATTACHMENT 1

STAKEHOLDER FEEDBACK TEMPLATE

The template below has been developed to enable stakeholders to provide their feedback on the questions posed in this paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to assist it to consider the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the consultation paper. Stakeholders are also encouraged to provide evidence to support claims where possible.

SUBMITTER DETAILS

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CHAPTER 4 – SECTION 4.1 – TIME PERIOD FOR DELAY

Question 1 – Time period for delay	
a) If a delay to the start date of 5MS is necessary, is a 12-month delay appropriate? Alternatively, please explain why another time period is preferable and, if applicable, the implications on cash flow and capacity? Would the rules need to commence at the start of a quarter to align with the contract market, or could 5ms commence mid-quarter? What would be the impact of a mid-quarter commencement?	The Consultation Paper and AEMO's request to delay five-minute settlement (5MS) for 12-months does not provide any evidence that a delay would provide a net benefit to the energy industry or energy customers. Stanwell understands from advice provided during the stakeholder briefing held on 21 May 2020 that neither AEMO nor the AEMC have undertaken cost/benefit analysis of delaying these projects. One of the potential benefits identified in section 2.3 of the Consultation Paper is that the proposed delay will "*reduce reliance on specialist project external resources, which could reduce 5MS project cost pressures for businesses.*" However, Stanwell and many other businesses have already engaged a significant number of staff, contractors and suppliers for the sole purpose of remediating systems to conform with the regulatory change on the current deadline. Any delay to the go-live

	date for 5MS and GS will result in extended engagement of resources to mitigate go-live risks to our business at additional cost. The estimated cost impact of the proposed extension of 12 months would be in excess of [Confidential: Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA) and sections 31 and 48 of the National Electricity Law.] for Stanwell. While this impact could be reduced by a shorter delay period, any delay beyond the current go-live date will result in additional cost to Stanwell. Stanwell encourage the AEMC to consider whether all elements of the 5MS work program would need to be delayed in order to provide relief to relevant participants, or whether some elements could go live on the current timetable. As an example, if the relevant participants are small retailers, 5-minute bidding may be able to commence while 30-minute settlement is retained for a period of time. Similarly, publication of additional data such as 5-minute pre-dispatch sensitivities (while not part of the Rule) appear able to proceed ahead of changes to the settlement functionality. If a delay to the start of all 5MS activities is considered necessary, Stanwell encourage the AEMC and AEMO to perform a comparative cost-benefit analysis of a three-month delay, to the proposed 12-month delay. A three-month delay may provide some relief for participants whose project timeframes have been affected by resource and financial impacts from COVID-19, while minimising negative impacts to those whose programs are still on-track. Alternatively, if the impacts to a broad range of energy businesses is determined to be significant, the 12-month delay proposed by AEMO may be more appropriate. We strongly advise against any consideration of a six or nine-month delay to the project implementation, particularly in relation to bidding activity. Both of these delay periods would conflict with the summer heightened-risk period which is traditionally difficult for major system changes. By contrast, under a progressive deployment approach it may be appropriate for settlement at 5-minute resolution to start on 1 May 2022 as this aligns the start of a NEM billing week with the start of a month (relevant for network charges and contract markets). If a billing period spans the proposed commencement date, we would in effect have part of the week settling on the 30-minute interval and the remainder of the week settling on the 5-minute interval.
b) What is the appropriate date for the commencement of the 'soft' and 'hard' starts for global settlement? Should this be a linear move by the number of months of delay, or should the dates change to another timeframe?	If a delay to 5MS is determined to be necessary and beneficial to the energy industry, Stanwell considers that the "hard" start for Global Settlement be deferred to occur after 5MS go live. Simliar to the response to 1a) we encourage the AEMC to consider whether there would be benefit in "hard" start being 1 January 2023 rather than February 2023 as this would align NEM settlement weeks with month start, and likely contract start for a significant number of customers. Alternatively, a delay equal to that of the 5MS deferral would seem appropriate. There does not appear to be a similar benefit to the potential delay of the "soft" start of Global Settlements. If AEMO are on track to deliver their portion of the technology change required there seems to be no downside in them publishing additional information on unaccounted for energy (UFE), even if retailers and customers do not use it immediately.

c) If there is a 12-month delay to the start date of 5MS and GS, is it still appropriate that all new and replacement meters (other than 4A) installed after 1 December 2018, and type 4A meters installed after 1 December 2019, be required to record and provide 5-minute data by 1 December 2022? If not, why and what time period would be appropriate?	Stanwell has no comment regarding the metering requirement dates.
d) If global settlement is delayed, by what date should AEMO prepare and publish the first report on unaccounted for energy required under cl 3.15B(a)?	As per the response to 1b), Stanwell considers that publication of additional information should occur at the earliest opportunity unless there is specific benefit attributable to a delay.
e) Cl 11.112.6 states that AEMO must make and publish the unaccounted for energy reporting guidelines required under new cl 3.15.5B(d) by 1 December 2022. What is the appropriate date for the publication of these reporting guidelines if there is a delay to global settlement?	Given AEMO has committed to maintaining its work program in line with the current schedule, Stanwell sees no reason the development and publication of the reporting guidelines should change from that schedule. This would provide those parties that will need to provide information required by AEMO to develop the annual report on unaccounted for energy trends additional time to understand what data they will be required to provide and prepare necessary procedures to collect and provide that information.

CHAPTER 4 – SECTION 4.2 – PARTICIPANT COSTS AND CAPACITY

Question 2 – Participant costs	
a) What is the expected impact of COVID-19 on participant cash flows? How material is this impact? How long are these cash flow impacts expected to last?	COVID-19 impacts on cash flows (both value and duration) are still developing. Stanwell has allocated budget and resources in relation to 5MS and GS and does not expect short-term cashflow impacts to be sufficient to impact the availability of budgetted funds.
b) For participants that are required to implement changes to IT systems and procedures for 5MS and GS, how would the proposed 12-month delay impact your implementation costs? Please quantify and provide evidence where possible. Any confidential cost information will be treated as confidential and redacted from submissions published on the AEMC's website.	As outlined in our response to Question 1(a), Stanwell's remediation program has engaged a significant number of staff, contractors and Suppliers for the sole purpose of remediating systems to conform with the regulatory change. The programme is on track to be ready for go-live on the current planned date. Extension of this date will force extended engagement of resources to mitigate go-live risk. The estimated cost impact of the proposed delay of 12-months would be in excess of ____________ for Stanwell. Confidential: Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA) and sections 31 and 48 of the National Electricity Law.
c) To what extent can additional market testing periods run by AEMO minimise costs associated with the delayed commencement of 5MS and GS? To what extent do participants rely on B2B data flows for 5MS and GS testing?	Stanwell has already planned for extensive testing to meet the current planned regulatory go-live date. A longer transition will force significant additional testing to address ongoing system updates. Additional market testing periods run by AEMO will add unplanned cost to the testing effort, for little expected gain. At this stage, Stanwell's test plan is by force of circumstance insulated from external provision of B2B data. While this is not ideal, it reflects the reality that AEMOs delivery timeline does not align with the interdependency constraints of our internal systems, forcing our testing to operate to the maximum extent possible in a fashion independent of AEMO's testing timeline.

Question 3 – Participant capacity	
d) To what extent has COVID-19 affected participants' ability to implement the necessary changes for 5MS and GS by 1 July 2021?	Stanwell's 5MS and GS implementation program is on track to be ready for go-live on the current planned date. COVID-19 travel and self-isolation impacts have prevented face-to-face meetings with supplier staff and forced suppliers providing software remediation services to deploy staff at their homes in offshore locations. Whilst a significant change to the planned delivery model, the impact on Stanwell's project schedule has to date been minor.

CHAPTER 4 – SECTION 4.3 – ELECTRICITY CONTRACT MARKET IMPLICATIONS

Question 4 – Electricity contract market	
a) To what extent have you purchased 5-minute cap products for FY 2021-22? What would the impact of a delay be to the value of those 5-minute cap products as risk management products for your business?	Confidential: Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA) and sections 31 and 48 of the National Electricity Law.
b) Would a delay to commencement of 5MS impact swap, captions or any other financial hedging products trading for FY2021-22 and beyond? If so, how?	Stanwell does not anticipate that a delay to 5MS would have a detrimental impact on trading beyond 1 July 2021. We are aware there has been some reluctance by participants to sell products such as caps and other volatility related products as the impact of the change from 30MS to 5MS creates uncertainty of potential outcomes. Currently participants are unsure of the impact 5MS will have on market outcomes, so it has become more difficult to accurately forecast the risk. It is possible that this delay will improve liquidity in the 2021/22 financial year, as uncertainty would be removed and participants can therefore price risk as they have in the past.

CHAPTER 4 – SECTION 4.4 – DELAYED BENEFITS

Question 5 – Delayed benefits	
a) To what extent were investments that have been made, or are planned to be made, in technologies that are capable of responding to a five-minute price signal, dependent on the 5MS rule commencing on 1 July 2021, as opposed to other factors? What effect would a 12-month delay have on the expected return on investment for these assets? Please quantify and provide evidence, noting that submissions can be treated as confidential if requested, or confidential information can be redacted from submissions published on the AEMC's website.	Stanwell has no comment regarding this question.
b) To what extent would a 12-month delay to the start of 5MS and/or GS delay the realisation of other benefits for individual participants and/or the industry as a whole? Please quantify and provide evidence, noting that submissions can be treated as confidential if requested, or confidential information can be redacted from submissions published on the AEMC's website.	Stanwell has invested in remediating key systems for early introduction into production, with a function 'toggle' to switch from 30MS to 5MS on the regulatory go-live date in alignment with the current AEMO delivery timeframes. A 12-month delay would force Stanwell to extend engagement of the supplier responsible for the remediation to maintain defect liability responsibility, or force Stanwell to cease all production changes, or both. 5MS remediation for Stanwell offers no positive ROI, regardless of go-live in 2021 or 2022. The cost component of ROI would be negtively impacted for Stnawell by the proposed 12-month delay to commencement of 5MS.

CHAPTER 4 – SECTION 4.5 – IMPLICATIONS OF DELAY ON RULE DRAFTING, PROCEDURES AND DETERMINATIONS

Question 6 – Drafting and procedure implications of delay	
a) Is there any feedback on the high-level description of a potential rule presented in Appendix A? Are there any other interactions with affected rules and schedules that have not been identified?	Stanwell is not aware of any other interactions with affected rules and schedules other than those already identified in Appendix A.
b) Should AEMO, the AER and the IEC be required to review and if necessary, amend their relevant procedures to take into account a delay to five minute and global settlement?	Stanwell would expect the relevant market bodies and regulators be required to review and amend (if necessary) their relevant procedures to consider a delay to 5MS and GS.
c) In its rule change request, AEMO proposes that there should be no consultation on any changes to its procedures if those changes are solely related to a delay to five minute and global settlement. Are there any reasons that this could be an issue?	Stanwell is not aware of any issues that would result from changes to AEMO's procedures if those changes are solely related to a delay to five minute and global settlement. However, industry should be appropriately notified of any changes that are made if there is a possibility that the changes impact on interactions with AEMO or other market bodies.