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

Dear Mr Pierce

**TASMANIAN GOVERNMENT SUBMISSION TO THE AEMC FIVE MINUTE SETTLEMENT DRAFT
RULE DETERMINATION**

The Tasmanian Government welcomes the opportunity to make a submission in response to the Australian Energy Market Commission's (AEMC's) draft determination on the five minute settlement rule change proposal.

The Tasmanian Government supports ensuring that the national electricity market rules framework is operating as efficiently and effectively as possible for the benefit of consumers. However, it is considered that there are significant uncertainties regarding whether the move from 30 minute to five minute settlement will be in the best interests of consumers (and, in particular, Tasmanian consumers).

The lack of a comprehensive cost benefit analysis providing justification for the rule change is of particular concern. The Tasmanian Government does not consider that such a significant and fundamental rule change should be made without there being a detailed cost benefit assessment that clearly demonstrates that the rule change will provide net benefits for consumers as well as clearly meeting the rule making test of contributing to the achievement of the National Electricity Objective.

The AEMC's acknowledgement that there is uncertainty in how the market would respond to five minute settlement (used as the basis for why a cost benefit analysis was not carried out) is in itself a clear indication of the need to better understand market impacts before proceeding.

A comprehensive cost benefit analysis should also include assessment at a regional level, reflecting the particular circumstances of each of the jurisdictions. The analysis that is presented in the draft determination to justify the rule change is based on issues that may be more evident in some jurisdictions. It does not adequately consider whether five minute settlement would be of net benefit to customers in all jurisdictions and, pertinent to this submission, of any net benefit to Tasmanian consumers. It should not be assumed that the issues used to justify the rule change will become more material over time in other regions such as Tasmania, as this does not consider differing jurisdictional circumstances.

Incentivising new technologies to provide 'balancing' capabilities in the face of increasing levels of variable renewable energy and thermal generator retirements, and improving bidding incentives, are two of the key benefits used to justify the rule change. However, both of these potential benefits are likely to be relatively lower in Tasmania (compared to the jurisdictions used to justify the rule change). Tasmania's existing dispatchable synchronous hydro generation capacity already provides extensive 'balancing' capabilities and the AEMC's analysis indicates that inefficient bidding behaviour is not prevalent in the Tasmanian market.

While benefits of five minute settlement are less likely to be realised in Tasmania, the costs are likely to be significant (and relatively higher on a per capita basis). Estimates of the costs of five minute settlement to Tasmanian energy businesses are in the order of tens of millions of dollars. A significant proportion of these costs relate to IT system upgrades, which are typically similar for market businesses regardless of their size and are likely to result in relatively higher per capita costs for Tasmanian consumers given the small size of the customer base. Given the demographics of the Tasmanian customer base, with a higher representation of low income and concession customers, significant additional costs are likely to be borne by those least able to pay.

The potential impacts of five minute settlement on the liquidity of the wholesale contract market are also of key concern. It is understood a number of studies indicate a significant reduction in the supply of cap contract products due to many existing generators that currently supply these products having reduced ability to back them under five minute settlement.

Any reduction in liquidity (in an already tight market) could have significant wholesale contract cost implications that would ultimately flow through to consumers. Some generators may decide to operate assets inefficiently in order to defend contracts and to remain in the market, which could also have significant cost implications. There could also be increased energy security and reliability risks (and associated costs) if the capacity of existing flexible dispatchable generation is reduced and is not adequately replaced.

The Tasmanian Government has significant concerns that, in a Tasmanian context, the tangible and relatively higher costs of five minute settlement may outweigh the relatively lower and uncertain benefits, resulting in increased prices for Tasmanian consumers. This impact on the Tasmanian community is an unacceptable outcome for the Tasmanian Government.

Implementing such a significant and fundamental rule change as five minute settlement at this time, with its uncertain impacts, is considered imprudent given the extent of the other energy reforms currently underway.

In particular, it is important that the energy reform blueprint established by Dr Alan Finkel in the Independent Review into the Future Security of the National Electricity Market (the Finkel Review), with 49 of its 50 recommendations agreed to by the COAG Energy Council, is given time to be implemented before any change to five minute settlement is considered and progressed further.

It will also be important to understand the implications of the Australian Government's proposed National Energy Guarantee (NEG), which has only just been announced at a conceptual level, with detailed design and modelling yet to be carried out.

These current and potential market reforms could address some of the issues used to justify five minute settlement.

For example, the proposed Reliability Guarantee component of the NEG places an obligation on retailers to ensure sufficient levels of dispatchable energy. A 'day-ahead' market, recommended for consideration by the Finkel Review, would have significant implications for settlement in the market and could address, for example, concerns with current strategic bidding practices. Five minute settlement should be

considered in the context of these broader market reforms. There does not appear to have been due consideration given to alternative approaches to five minute settlement. It is also important that sufficient time is given to assess the effectiveness of recent reforms such as the bidding in good faith rule change.

The Tasmanian Government does not consider that the transition from 30 minute to five minute settlement should occur until the uncertainties regarding market impacts are better understood and a detailed cost benefit analysis is carried out that demonstrates likely net benefits across all NEM regions. These are considered essential prerequisites for such a significant rule change. A delay would also provide the opportunity to better consider five minute settlement in the context of the substantial current reform agenda and allow consideration of potential alternatives to addressing the issues that five minute settlement is intended to overcome.

The Tasmanian Government believes that a more prudent approach would be to establish a monitoring regime to assess the future suitability of conditions for five minute settlement, taking into account the impact of recent and current reforms. While it is acknowledged that the AEMC is unable to make a conditional rule under the existing rule making provisions, it would seem reasonable that if it elected to not make the rule that it could then make recommendations to (for example) the COAG Energy Council to consider establishing some form of monitoring regime. The Tasmanian Government would be supportive of such an approach.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Guy Barnett'.

Guy Barnett MP
Minister for Energy