

17 October 2017



Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2499  
**Sydney South NSW 1235**

Dear Mr Pierce

**“ERC0201” Draft Rule Determination – Five Minute Settlement**

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Market Commission (AEMC) regarding its Draft Determination and supporting Draft Rule in relation to aligning operational dispatch and financial settlement in the National Energy Market (NEM) to five minutes.

Energy Queensland is a Queensland Government Owned Corporation that operates a portfolio of businesses providing energy services across Queensland, including:

- Distribution network service providers (DNSPs), Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy Network);
- A regional service delivery retailer, Ergon Energy Queensland Limited (Ergon Energy Retail), limited in its scope of operations by jurisdictional legislation; and
- Affiliated contestable businesses, Metering Dynamics, Energy Impact and Ergon Energy Telecommunications.

Energy Queensland’s purpose is to “safely deliver secure, affordable and sustainable energy solutions with our communities and customers” and is focused on working across its portfolio of activities to deliver customers lower, more predictable power bills while maintaining a safe and reliable supply and a great customer service experience.

Energy Queensland supports a framework that assesses rule changes from a holistic perspective and provides the best outcomes for consumers. Fundamental to any proposal for a rule change, is a demonstration that the expenditure to implement a rule change will provide a net benefit to all consumers and the market more generally. Any amendments to the regulatory framework therefore need to be carefully balanced to ensure they do not create any unintended outcomes and increase in costs. Energy Queensland has focussed on addressing a number of key issues that cause significant concern as they relate to the Draft Determination and supporting Draft Rule. These are discussed below.

### **Implementation Costs**

This Draft Rule as currently proposed will result in significant costs as it relates to the hedge market, metering and IT systems, including billing and data warehousing. We appreciate that the AEMC recognises these costs<sup>1</sup>. However, this offers little comfort when these increased costs will be passed on to consumers with no quantifiable value. Following from this, and similar to sentiments expressed in our response to the AEMC's Directions Paper is the lack of a quantifiable, independent cost-benefit analysis, as such, Energy Queensland cannot support the Draft Rule.

We understand that the AEMC's view is that the benefits of the proposed rule to align dispatch and settlement to five minutes will "quickly" outweigh the one-off and on-going costs, and therefore will contribute to the National Electricity Objective. Energy Queensland reasonably anticipates it may be likely to cost tens of millions of dollars to upgrade our IT systems to accommodate a move to five minute settlement. We therefore question, without doing a full cost-benefit analysis, how the AEMC can state that the benefits will far outweigh the costs. Our view is that the costs need to be fully understood, by all stakeholders including consumers and noted prior, to rolling out the proposed rule change.

### **Hedge market**

Energy Queensland is still concerned that the hedge market liquidity will be significantly impaired as caps and swaps are withdrawn. In our response to the Directions Paper we confirmed that this was because fast start generators will not be able to respond within five minutes to defend sold contract positions, in particular to cap contracts. In relation to swap contracts, the hedge market is compromised as it cannot support fast start peaking plant when baseload suffers outages, therefore units must be kept in spinning reserve. This will further entrench a competitive advantage to vertically-integrated businesses that have a "natural hedge" and are better able to manage risk. Energy Queensland is not satisfied that moving to five minute settlement will enable more efficient wholesale market outcomes and therefore benefit consumers in the long term.

### **Metering**

We are aware that the AEMC has acknowledged that the Draft Rule does not reflect the AEMC's policy intent outlined in the Draft Determination, which is, the five minute settlement rule change is to apply to types 1-7 meters.

Notwithstanding this admission, Energy Queensland seeks clarification from the AEMC in terms of the application of this rule change as it relates to Type 4 meters. In particular, it is not clear if the AEMC's intent is that all Type 4 meters installed or replaced from 1 December 2018 are capable of recording data at five minute granularity; however, for settlement purposes data can be collected at thirty minutes until the proposed commencement of the Rule, 1 July 2021. Further, does the proposed exemption framework to be developed by AEMO apply to all Type 4 metering installations as opposed to Type 4 transmission and distribution metering installations only?

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<sup>1</sup> AEMC Draft Determination Five Minute Settlement, 5 September 2017, pg.104, states "...there will therefore be large costs, practical challenges and risks associated with implementing five minute settlement".

Energy Queensland is concerned about the application of this Draft Rule to Type 7 meters (unmetered). This will cause significant impacts for DNSPs, such as Ergon Energy and Energex. In relation to Type 7 meters, any settlement would be an estimate of the load and spread through the five minute interval under the Draft Rule. This will be administratively onerous and costly and we see little value in Type 7 meters going to five minute settlement as there will be no greater granularity as the data is generally flat-lined. Essentially, we do not understand the policy intent of moving Type 7 meters to five minute settlement and it is not clear the value that would be derived to the wholesale market. Therefore, Energy Queensland strongly recommends that AEMC consider excluding Type 7 from the application of this Draft Rule.

A related issue is the recommendation in the Draft Determination that AEMO must have consulted and amended its relevant procedures, methodologies and guidelines by 1 December 2020. If the AEMC makes the Final Rule that reflects the Draft Rule, it will commence 1 July 2021. Energy Queensland considers that given our experience in the development of the metering contestability rule change to support the Power of Choice Reform, that the date of 1 December 2020 is not workable. We recommend the AEMC consider that AEMO develop the market procedures by December 2019 or at the latest June 2020 to ensure readiness for 1 July 2021. It is critical that readiness, in terms of developing supporting market processes, are tested and operational well in advance of the commencement date.

### **Network Impacts**

Energy Queensland considers that the solutions proposed have not adequately assessed network impacts. We believe that at a system level, there is the potential for stability issues to arise if the implementation of this Draft Rule is not managed correctly within the wholesale market more broadly. For example, DNSPs may not be able to meet Service Target Performance Incentive Schemes or jurisdictional guaranteed service levels.

Another matter of concern is that the rule change may influence dynamic demand response which will indirectly impact Ergon Energy's and Energex's ability to manage the network. The majority of devices likely to be able to provide this response will largely be electronic and will impact for example, power quality. This change in demand behaviour will result in DNSPs having to increase investments in smarter network technology. DNSPs will need to be more responsive, and have greater investment to improve visibility and control to manage market responses.

Energy Queensland is also concerned about the potential costs associated with replacing existing assets prior to their end of life in order to comply with the rule change. We consider that these costs could be significant and must be acknowledged by the AEMC in implementing this regulatory change. It is clear that there will be significant one-off costs; however, underutilising existing assets is not economic and nor in long term interests of consumers.

### **Commencement Date**

Energy Queensland has expressed reservations about this rule change since its inception. However, notwithstanding our lack of support for this rule change we have serious concerns regarding the proposed commencement date.

Noting that some of the market is supportive of this rule change, and to facilitate its implementation the AEMC recommends a period of 3 years and 7 months to transition to full compliance. However, Energy Queensland is still concerned that the lead time required to implement a rule change such as this is most likely to be in the order of 5 years. Additionally, the AEMC should be cognisant of broader market reforms currently underway, such as the metering contestability framework brought about as part of the Power of Choice reforms that are exhausting resources of market participants. Any transition to five minute settlements should not commence until Power of Choice has been stabilised. Also, both Ergon Energy and Energex are preparing to dedicate resources to the regulatory reset process under Chapter 6 of the NER.

As members of the Energy Networks Australia (ENA), the peak national body for Australia's energy networks, Ergon Energy and Energex have also contributed to and are supportive of the issues raised in the ENA's submission. Similarly, EEQ being a member of the Australian Energy Council (AEC) supports the positions raised by the AEC in their submission.

Should you require additional information or wish to discuss any aspect of Energy Queensland's submission, please do not hesitate to contact either myself on (07) 3851 6416 or Trudy Fraser on (07) 3851 6787.

Yours sincerely



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