



EnergyAustralia

LIGHT THE WAY

17 October 2017

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Dear Commissioners

Lodged electronically: www.aemc.gov.au
Reference: ERC0201

Submission to AEMC Draft Determination – Five-minute settlement

EnergyAustralia is one of Australia's largest energy companies with over 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM) and an annual gas portfolio of over 100PJ.

From first principles, five-minute settlement is a more efficient market design than the current approach. We support seeking the material benefits that may accrue from this change.

The challenge is how to ensure the program of work delivers the benefits at lowest risk and cost. To this end, we offer the following recommendations that we believe are required for effective progress:

- Governance of implementation is critical for success and should incorporate readiness reporting from all participants and coordination across the industry;
- Workshops to run through the detail of the final rules and test how the rules work in practice prior to actual transition will help manage the change across the industry;
- The 1 December 2020 date for AEMO to publish the final procedures will not enable sufficient time for participants to prepare, we request either this date is brought forward to allow two years' implementation time, or that there are progressive planning dates and information released allowing participant sufficient time to planning to proceed with the significant changes to processes and design, build and testing of systems.

If you would like to discuss this submission, please contact Melinda Green on 03 8628 1242 or Chris Streets on 03 8628 1393.

Regards

Mark Collette
Executive – Energy

Attachment A – EnergyAustralia’s submission on five-minute settlement

The following submission sets out the key areas of the proposed implementation that require additional consideration to ensure that the transition to five-minute settlement is done at least cost, if the rule change were to be made.

Minimising implementation costs

Our concerns about costs primarily relate to the broader context of the energy trilemma. We urge the Commission to consider the proposal against the energy trilemma of system security and reliability, affordability of energy supplies and reducing emissions. Our previous submission¹ provided further information on the relationship between the proposal and the trilemma. It also highlighted the need to ensure that a major market redesign, such as shifting to five-minute settlement, should be fully considered in conjunction with the various other major energy market reviews that have been conducted or are still ongoing. If this is not done, there is a high risk of additional costs, or lost benefits, where the proposal is incompatible with the findings of those reviews.

These include a wide array of rule change proposals relating to system security and reliability following the Independent Review into the Future Security of the National Electricity Market. Additionally, there is an ongoing review of climate change policy by the Department of Energy and the Environment and consideration of pricing by the Australian Competition and Consumer Commission. We consider any inconsistency between the outcomes of the proposal and the outcomes of those reviews would likely impact significantly on the assumed benefits of the rule change. As part of our participation in these reviews, we have advocated for a comprehensive package of policy initiatives to address the energy trilemma and recommend the Commission consider alignment of dispatch and settlement in this context.

If the Commission does make the final rule substantially in line with the draft determination, then we would strongly suggest the Commission focuses on ensuring that the implementation imposes the least cost on end use consumers. We have identified several risks across the implementation period that should be addressed in order to reduce the potential impact of the proposal. These risks primarily relate to clarity of the draft rule. They also include issues of governance of the implementation by the AEMO. In summary, we have identified the following issues as requiring further consideration, with industry input, to reduce implementation costs.

Effective transitional period

The draft determination proposes a commencement date of 1 July 2021, based on an implementation period of 3 year and 7 months. However, under the draft rule, AEMO is not required to provide the necessary procedures until 1 December 2020. This only gives 7 months from finalisation of these necessary elements until commencement.

We understand that the process of determining the various procedures required to implement this rule change will be iterative and involve ongoing consultation. However, there is no certainty that the detail necessary to perform adequate business planning, and allow for implementation to occur by the proposed date, will be published with

¹ <http://www.aemc.gov.au/getattachment/3ba5fca0-04ea-4db8-bf52-986f4c8a501b/EnergyAustralia—received-29-May-2017.aspx>

sufficient time for design and implementation of the changes. This creates substantial risks around poorly designed solutions, system and process issues and increased costs.

Of concern is that the storage exemption guidelines, for existing metering that is reconfigured to five-minute data capability, are also not due to be finalised until 7 months before commencement. The lack of specification as to how this process is proposed to work or what criteria will be used to determine what installations are able to apply for exemption adds significant uncertainty. This guideline should be completed as early as possible to enable participants to make informed decisions on the ability to reconfigure meters for five-minute data capability where the storage requirements would otherwise be breached.

We also have significant concerns that providing an implementation date only 7 months after AEMO is required to have finalised the required procedures does not provide any ability manage risks identified following making of the final rule. As has been seen in other processes with commencement dates locked into the rules,² is that there is a lack of flexibility in managing significant issues identified close to that date. Risk mitigation may be reliant on a rule change process to adjust time frames if the AEMO consultation processes, or industry testing identifies material barriers to meeting the legislated date.

We consider that if the Commission is proceeding to set a fixed commencement date as per the draft determination, then there should be an assessment of what key decision gates can be built into the final rule to provide a more certain trajectory to implementation. This would ensure that where key milestones are not met by either participants or AEMO there is an opportunity to assess the risks to the broader implementation and, where necessary, take action to adjust the trajectory. Consultation on these gates would enable participants to provide more detailed information on how long they need to build the relevant systems and processes once requirements are locked in.

If such a staged approach cannot be adopted, then we proposed that AEMO should be required to have the relevant procedures finalised no later than 1 July 2019. This would give participants an effective implementation period of 2 years.

New and replacement metering

As drafted, the rules are unclear in terms of metering capability from 1 December 2018 and this creates uncertainty for us on the level of system change required to support the roll out of five-minute capable meters from this date. The draft rule states that new and replacement meters need to be configured to *provide* five-minute data. This would also require systems capable of receiving and aggregating such data. Substantial changes to systems and processes would be required and it is not feasible for procedures to be developed and implemented by this proposed start date. We believe that this date should not require an early commencement of five-minute metering data systems and the requirements should be limited to the physical installation of meters that can provide five-minute data.

² Such as for the implementation of the Power of Choice metering contestability changes for 1 December 2017.

Clarification of the drafting of this requirement is necessary. We believe that key components of the proposed rule change do not need to be implemented prior to the 1 July 2021 commencement date.

Governance and project coordination

Due to the breadth of the proposed rule change, governance of the implementation process does not fit solely under AEMO's scope. This presents risks of an uncoordinated and incomplete approach to implementation reliant on participant engagement, with the potential to vastly increase costs. For example, the draft rule would require a high level of bilateral arrangements prior to commencement. With an increase in market participants following the changes to competition in metering through the Power of Choice metering reforms, there is an increased requirement to engage with more metering service providers. As has been observed in the Power of Choice program, there are numerous risks introduced through managing the implementation in this manner.

We also note that even when aspects of system changes are governed under AEMO's scope, the participation of industry in consultations and readiness reporting can vary widely across participants or classes of participants.

Substantial risks to the operation of the market, effective settlement for participants and customer costs and experience are all increased where proper coordination does not occur. We would support more consideration of the governance arrangements to facilitate implementation in a more coordinated fashion.

Based on our experiences during the Power of Choice metering implementation we suggest the following aspects should be reviewed to avoid similar issues occurring during the five-minute settlement implementation:

- Incomplete governance over activities required to deliver industry changes.
- AEMO is responsible for delivering a series of procedures and system changes across the industry, but is not required to work with industry to meet the objectives of the rule changes – i.e. to ensure that metering competition delivers a competitive market that will deliver benefits for customers.
- No governance or rules over the establishment or renegotiation of bi-lateral arrangements between participants
- Little recourse for participants who are made non-compliant, operationally inefficient or must incur additional costs due to actions by other participants (often at short notice)
- Lack of decision making forums for some aspects of the industry changes.
- Most of the implementation (from procedure design through to testing) has been done under immense time pressure and this has driven up implementation and ongoing costs across the industry and will also lower quality of the solution delivered in December 2017.

We appreciate that delivery of industry-wide changes is very challenging, and that much has been done by AEMO and participants to overcome these issues above and to keep the overall program on track to date. However, the learnings from the Power of Choice metering program are very relevant for five-minute settlement and we encourage the Commission to consider the set up carefully prior to making the final rule change.

Requirement for further consultation

Through the previous consultation rounds of this rule change proposal, there has been a focus on impacts in the wholesale market. While the issues of customer optionality and what metering designs could support this rule change had been raised to some extent, the draft determination has added material new elements to the rule change. We consider that as many of the above issues have not been subject to significant industry engagement to date, ways to mitigate some of the risks posed should be developed through further consultation. Prior to finalising the specific drafting of the final rule, we propose that industry workshops are held to ensure that sub-optimal design is not enshrined in the rules.

The Commission has noted the significant pressure it is under to make this rule change in a timely manner, particularly given the extended consultation process already undertaken. However, we note that this rule change is much more significant in terms of impact on the NEM than most rule changes. The draft rule, if confirmed through this consultation, would lock in a substantially different market design for the foreseeable future and pass through a large cost impost onto consumers. Making a final rule that fails to address the above risks is not in the long-term interest of consumers. We strongly support mechanisms to provide additional opportunity to review and assess the actual implementation of this rule change, if the Commission decides to make the overall change to five-minute settlement.

We note the process used in the Commission's Review of the Victorian Declared Wholesale Gas Market, and the release of a draft final report. If a similar workshop-based process were to be utilised in under this process, it would allow the Commission to confirm its decision in relation to the headline aspects of the rule change proposal, while providing an opportunity to ensure the drafting of the final rule has industry support and that the implementation will meet the objectives.

A further consultation period of six months focussed on the proposed design of the five-minute settlement market would assist in developing a least-cost transition. This period would give sufficient opportunity to hold a series of workshops with industry participants to identify specific risks, understand the times to develop and implement key aspects of the rule change and plan the coordinated approach necessary to transition smoothly to five-minute settlement.

Conclusion

In summary, EnergyAustralia supports the transition to a five-minute settlement market if costs to consumers are minimised. We agree with the economic arguments for the alignment of dispatch and settlement, but still consider that the ability to capture the benefits outlined in the rule change is highly uncertain at present. This uncertainty would be reduced if the rule change were to take into account the suite of current market reviews into the design of the NEM, once they are completed.

We support the proposed transition period of 3 years and 7 months as being the bare minimum required to effect the required change, subject to that transition period giving participants an effective period for implementation as discussed above. Given the substantial risks raised through implementation of the rule change, any opportunity to mitigate these risks should be taken by the Commission. This may include lengthening the transition period and carefully considering the implementation steps and appropriate governance. There are substantial costs of implementation that will be borne by consumers, and these costs need to be minimised wherever feasible.