



AGL Energy Limited
ABN: 74 115 061 375
Level 24, 200 George St
Sydney NSW 2000
Locked Bag 1837
St Leonards NSW 2065
t: 02 9921 2999
f: 02 9921 2552
agl.com.au

Mr John Pierce
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

18 October 2017

Dear Mr Pierce

Draft Rule Determination Five Minute Settlement

AGL welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Draft Rule Determination on Five Minute Settlement (Draft Determination).

AGL is one of Australia's leading integrated energy companies and largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional generation fuel sources as well as renewable sources. AGL is also a significant retailer of energy, providing energy solutions to over 3.6 million customers throughout eastern Australia.

The views expressed in this submission leverage on AGL's considerable market experience.

AGL considers that Five Minute Settlement is an inevitable development that will support increased demand response and battery storage as the NEM transitions to a more flexible, renewables-based generation mix. Five Minute Settlement will also be a fundamental change to market design that will impact all participants in the energy sector and consequently will have significant implementation risks.

AGL commends the further analysis the AEMC has undertaken on the potential impact of Five Minute Settlement on participant's risk management profiles and the reliability and security of the NEM. However, AGL considers that there is more work to be done in both analysing Five Minute Settlement as part of a holistic set of changes taking place within the NEM, including new proposed mechanisms relating to security and emissions, and investing in more comprehensive scenario modelling to ensure that the commencement date remains the most suitable given the uncertainty of outcomes from such a fundamental change to market design.

As stated in the AGL submission to the Directions Paper, AGL is supportive of Five Minute Settlement, but this support is contingent on it being implemented when the AEMC is absolutely confident that all retailers – including new entrants – are able to effectively manage their exposure to pool price risk via access to a deep and liquid financial market. The Draft Determination has not provided enough certainty that the suggested implementation period will provide sufficient risk management options.

AGL provides the following comments in response to the Draft Determination.



Implementation timeframe

The AEMC considers a July 2021 commencement date will allow sufficient time for the introduction of new risk management tools to replace exiting peaking generation. Five Minute Settlement represents a fundamental change to market design and has many potential outcomes.

Consequently, AGL recommends an investment in comprehensive scenario modelling that will analyse expected market developments and provide some assurance that the commencement timeframe is suitable across the range of multiple outcomes. Part of ensuring the commencement date is suitable will be identifying factors, such as the percentage of generation able to respond within five minutes, that indicate the NEM is ready for a transition to Five Minute Settlement.

Monitoring

The Draft Determination notes that monitoring regimes have been used for market reviews – rather than rule changes and that it is not possible to make a contingent ruling with a time for implementation to be defined later (p 99). AGL considers that Five Minute Settlement is a fundamental redesign of the market, which warrants monitoring over the implementation timeframe to ensure that the commencement date remains appropriate.

Comprehensive scenario modelling would give more insight into critical indicators that could influence the transition to Five Minute Settlement. Identifying specific factors to monitor – such as the rate of battery storage rollout and take up rate of demand side response – would be an effective risk management tool available to the AEMC over the implementation period. For example, should it be determined that investment in new generation or contract market liquidity is insufficient a year before the commencement date, the AEMC would have the time and ability to identify mechanisms to ensure a stable transition to Five Minute Settlement or alternatively introduce a rule change to change the commencement date.

The Draft Determination states that any cost-benefit analysis of Five Minute Settlement will be limited by assumptions made on the behaviour of bidders which is unknown – given all historical data is in a 30-minute settlement environment (p.126). AGL acknowledges this limitation, but notes that without some monitoring regime, the changeover to Five Minute Settlement will occur without sufficient understanding of potential consequences or participant behaviour. Identifying potential market outcomes by assessing the range of possible impacts to cap contracts or investment in new generation or energy storage, will at least provide an idea of the risks of Five Minute Settlement before the commencement date.

Costs

The Draft Determination acknowledges that there will be substantial one-off costs in implementation, and considers that the ongoing efficiency gains will far outweigh the costs expended, given the size of the NEM. This may result in smaller players incurring large costs, without any efficiencies outweighing those costs for the short to medium term, placing a greater financial burden on second tier participants in the NEM. The analysis in the Draft Determination also assumes that prices will decrease, when the movement of wholesale prices is uncertain.

Metering

AGL notes that the Draft Determination requires Type 1, 2 and 3, and some Type 4 meters to be able to record five-minute data from the implementation date of 1 July 2021. Other Type 4, as well as all of Type 5 and 6 meters, will not be subject to the same requirement. Instead, these meters will be profiled to five-



minute trading intervals by AEMO using net system load profiles. AGL considers that this arrangement, while minimising upfront metering upgrade costs, also removes some of the potential benefit of Five Minute Settlement, that is, more granular demand-side information. This arrangement also introduces additional risk in terms of accurate metering.

Conclusion

Overall, AGL considers that while Five Minute Settlement is an inevitable market development more work needs to be done to fully understand its impact – which may require a longer implementation timeframe. AGL encourages the AEMC to undertake comprehensive scenario modelling to ensure the commencement date is achievable, to allow participants to manage their risks and exposure in the NEM, and to identify indicators to monitor the implementation.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Meng Goh', enclosed within a thin black rectangular border.

Meng Goh

Senior Manager Regulatory Strategy