

16 May 2017

Dr Kris Funston
Senior Director
Australian Energy Market Commission
PO Box A2449
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Dear Dr Funston

Directions Paper on Five Minute Settlement rule change

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation that works for a fair, just and democratic society, empowering citizens, consumers and communities by taking strategic action on public interest issues. PIAC welcomes the opportunity to respond to the AEMC's Directions Paper on the Five Minute Settlement rule change.

PIAC supports the rule change as it considers it will lead to sustained lower costs for all consumers through greater efficiency of the wholesale electricity market and by helping to accelerate the introduction of new technologies. PIAC notes that the reason for the current misalignment of dispatch and financial settlement in the wholesale market was due to technological limitations in metering and data processing in the 1990s. Technology has improved considerably since then and there is no need to maintain this misalignment.

Aligning the financial settlement of the wholesale market with dispatch will lead to better price signalling for both supply- and demand-side participation and should ultimately lead to more efficient wholesale prices. Five minute settlement removes the current perverse incentive for generators to 'pile in' and offer bids at inefficient prices and times in response to a price spike in a single dispatch interval, as noted in the AEMC's Directions Paper and by stakeholders. Furthermore, it will encourage greater demand-side participation in the wholesale market by providing greater certainty of the return from curtailing consumption for a limited time.

PIAC considers that, in concert with other reforms, five minute settlement will also bring forward the wide-scale adoption of fast-response technologies such as battery storage which will play an important role in the changes currently underway in the National Electricity Market. By providing greater certainty of the price to generate or consume electricity in a single dispatch interval, it will encourage more efficient participation in the wholesale markets by these technologies.

PIAC acknowledges that there will be costs involved in implementing the necessary changes to the underlying metering and settlement systems as well as the potential impact to the financial derivatives market. While these costs should be well understood, it is essential that this be balanced by a similarly robust understanding of the sustained, long-term benefits which may be brought about by this rule change.

This also highlights the importance of the transitional arrangements and implementation timeframe to allow affected parties to efficiently manage risks and costs while not unnecessarily delaying the benefits to consumers.

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PIAC would welcome the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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