



Aligning dispatch and settlement – draft rule to move to five minute settlement

The Australian Energy Market Commission today made a draft rule to change the settlement period for the electricity spot price from 30 minutes to five minutes.

AEMC Chairman John Pierce said moving to five minute settlement would align the physical electricity system – which matches demand and supply of electricity every five minutes – with the price signal provided by the market for that five minute period.

“Price signals that align with physical operations lead to more efficient bidding, operational decisions and investment,” said Mr Pierce.

“Over time, this flows through to lower wholesale costs, which should lead to lower electricity prices than in a market with 30 minute settlement. Wholesale costs make up around one third of a typical electricity bill.”

More accurate price signals also encourage more efficient investment in flexible technologies such as aggregating distributed storage, new generation gas peaker plants and rapid demand response. These technologies, which can back up the system in real time when the wind stops blowing and the sun stops shining, are becoming increasingly important as more wind and solar generation enters the market and thermal generators retire.

The draft determination proposes a transition period of three-and-a-half years.

“Moving to five minute settlement would be a fundamental change to the way the wholesale electricity market operates in Australia, including the hedge market that operates alongside the spot market,” said Mr Pierce.

“Three-and-a-half years is the shortest possible timeframe to capture the benefits of five minute settlement without posing unacceptable risks to system security or the operation of the spot market.”

The transition period allows time for most existing hedging contracts to roll off, while enabling new contracts to accommodate a future with five minute settlement.

The market also needs time to make major upgrades to IT systems and metering. The Australian Energy Market Operator has developed a high-level implementation plan, also published today, setting out the technical changes which AEMO and the industry would need to make.

The need for a staged transition to new settlement arrangements in the wholesale electricity market over multiple years is consistent with the approach taken internationally.

For example, changes to settlement arrangements in the New Zealand electricity market have been under consideration by the NZ Electricity Authority since 2013. The Authority recently proposed an implementation period of four years.

Submissions on the Five Minute Settlement draft determination close on 17 October 2017.

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**We are now calling
for public
submissions on
the draft
determination**

Background

The five minute settlement rule change proposal was submitted by Sun Metals Corporation, a zinc refinery and large energy user. Under the National Electricity Rules, any individual, group or organisation can lodge a rule change request or submission with the AEMC.

A working group including generators, retailers, new technology providers, consumer groups, financial institutions, large energy users, AEMO and the AER, has been helping the AEMC assess this rule change proposal.