



11 June 2020

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

Lodged via AEMC website: www.aemc.gov.au

Dear Mr Pierce,

**DELAYED IMPLEMENTATION OF FIVE MINUTE AND GLOBAL SETTLEMENT (ERC0298):
CONSULTATION PAPER**

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia. We represent and work with Australia's leading renewable energy and energy storage businesses to accelerate the transformation of Australia's energy system to one that is smarter and cleaner.

The CEC welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC's) consultation paper on the rule change request to delay the implementation of five minute settlement. The CEC does not support a delay to the implementation of five minute settlement.¹ Whilst the impact of the COVID-19 pandemic on the Australian economy is unprecedented, we believe that the commencement of five minute settlement should continue as planned on 1 July 2021. Over three years was provided for its implementation and a significant amount of work has already been undertaken by the Australian Energy Market Operator (AEMO) and participants to be ready to implement this reform. Even during these challenging times, the renewable energy sector is working towards and is prepared for five minute settlement to commence as planned on 1 July 2021. The onus of proof for any delay should fall on those advocating for such a delay. Any delay to the commencement of five minute settlement must demonstrate a clear market benefit in line with the National Electricity Objective.

¹ The CEC has a broad membership consisting of organisations with varying interests in renewable energy. Our position reflects the strongly held sentiment of the majority of our members that are operators and developers of, or investors in, renewable energy generation and energy storage. However, some of our members, such as those that operate across other elements of the energy supply chain, may have a divergent position, which will be reflected in their individual submissions to the consultation paper.

The impact of COVID-19

The CEC does not dispute that COVID-19 has had a profound impact across all elements of the economy. For the energy sector, COVID-19 is imposing risks and restrictions on energy markets and participants that are leading to uncertainties around cash flows and workforce capacity. However, AEMO's rule change request was lodged on 9 April 2020 during the early stages of the COVID-19 pandemic when its duration and severity were highly uncertain. Since then, the number of active COVID-19 cases across Australia has dropped significantly and lockdown restrictions are being lifted across all jurisdictions. While the economic impacts of COVID-19 are likely to persist for some time, Australia's relative success in containing the virus nationwide suggests that the grave concerns raised at the time that the rule change request was submitted may not be as deep or as enduring as initially anticipated.

Fortunately, the renewable energy sector has so far been fairly resilient to the impacts of the COVID-19 pandemic with no discernible direct impact on participants' financial health. Although renewable energy projects have had to adapt for physical distancing and restrictions on travel, their construction, connection and commissioning continue across the country. Even during this challenging period, new projects are being announced.²

For operational renewable energy generators, COVID-19 has resulted in lower wholesale prices as a result of a marginal reduction in electricity demand. This has led to reduced revenue for those generators that are not covered by bilateral contracts or internal hedges. However, lower wholesale prices due to COVID-19 are no more concerning than variabilities associated with weather, commodity prices and other factors that influence spot prices. Operational generators do not anticipate any impact on their financial health over the medium to long term as wholesale prices may rally as electricity demand returns to pre-pandemic levels. In addition, operational generators are not seeing any impact on the ability of their PPA counterparties to pay for the electricity they have bought.

With respect to the direct impact of COVID-19 on the implementation of five-minute settlement, the renewable energy sector is largely on track to implement the reform as planned on 1 July 2021 with no noticeable impacts to this from the pandemic. We note, however, that for the majority of renewable energy generators, the impact of COVID-19 has been relatively minor compared with other energy market participants that may be facing greater COVID-19 related uncertainties. The implementation of five minute settlement is also relatively simple for renewable energy generators when compared with other energy market participants that require substantial system and process changes.

Proving the need for a delay

In making its final determination to introduce five minute settlement, the AEMC found that this reform would provide strong market benefits through:

- Improved price signals for more efficient generation and use of electricity
- Improved price signals for more efficient investment in capacity and demand response technologies to balance supply and demand

² For example, see recent announcements by Neoen (<https://www.neoen.com/var/fichiers/20200506-neoen-mr-western-downs.pdf>) and Acciona (<https://www.acciona.com.au/pressroom/news/2020/march/acciona-to-build-a-1-026-mw-wind-farm-in-queensland/>) for new renewable energy developments in Queensland.

- Improved bidding incentives.³

The CEC is concerned that a delay to the implementation of five minute settlement may come at a cost to the broader market as these benefits would be further delayed. Furthermore, as a principle the AEMC should avoid delays to reforms after they have been finalised and communicated to industry. Such delays can lead to regulatory uncertainty, which can dampen investor confidence. In addition, the commencement of five minute settlement is already factored into expectations and offtake contracts so changing the implementation date creates a risk and perception of risk, which will reduce the interest of parties in contracting.

It is incumbent on those that support a delay to the implementation of five minute settlement to provide clear evidence of the need for a delay. This evidence should be directly attributable to the impacts of the COVID-19 pandemic and not due to other factors such as poor organisational planning to date.

It is also important that the AEMC's quantitative and qualitative assessment of the relative costs and benefits of delaying five minute settlement is transparent. The CEC appreciates that evidence may be provided on a confidential basis, but it would provide confidence of the robustness of the AEMC's decision if as much detail as possible of its assessment can be included in the final determination.

If participants are able to provide clear evidence of the challenges and costs associated with meeting the 1 July 2021 implementation date that are a direct result of the COVID-19 pandemic and the AEMC considers a delay may be justified, then the CEC encourages the AEMC to consider as short a delay to implementation as possible. A shorter delay would ensure that the benefits of introducing five minute settlement are not postponed unnecessarily and may reduce the potential costs associated with interrupting the current implementation processes and recommencing these at a later date.

A six-month delay would be challenging given this would mean implementation would occur during the peak summer period. As such, a delay of up to three months should be evaluated in the first instance.

Thank you for the opportunity to comment on this consultation. If you would like to discuss any of the issues raised in this submission, please contact me as outlined below.

Yours sincerely,



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³ AEMC, *Five Minute Settlement*, final determination, 28 November 2017. Available at: <https://www.aemc.gov.au/sites/default/files/content/97d09813-a07c-49c3-9c55-288baf8936af/ERC0201-Five-Minute-Settlement-Final-Determination.PDF>