

18 May 2020

John Pierce AO
Chair, Australian Energy Market Commission

Delayed Implementation of Five-Minute Settlement

Dear Mr Pierce,

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments (COAG) Energy Council (the Energy Council) in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply. The underlying change from a system made up of a small number of big things to one made up of many small things poses many challenges. In our consideration of those challenges we focus on how the market needs to evolve to provide reliability and security of supply so that current and future customers pay no more than necessary to get the energy services they need.

We appreciate the opportunity to comment on the *National Electricity Amendment (Delayed Implementation of Five Minute and Global Settlement) Rule 2020 Consultation Paper* (the Paper) by the Australian Energy Market Commission (the AEMC) on 14 May 2020.

In our submissions on the initial consultation paper¹ and the Directions Paper² and in our response to the Draft Determination³, we supported the early alignment of dispatch and settlement intervals in the wholesale market via Five Minute Settlement. We see the change as critical for the transition of the electricity system because it improves the economics of storage and is a pre-requisite for greater consumer or 'demand-side' participation. We are not assured that it is necessary to delay the implementation of this important reform.

We also believe that the prioritisation exercise the market bodies have undertaken because of COVID19 has longer-term value which we discuss in this submission.

Status of 5 Minute Settlement Implementation

In our submission on the Directions Paper we called for robust and transparent governance framework to ensure that the complex systems changes that need to be made to implement Five Minute Settlement are made in a timely and efficient way. The Australian Energy Market Operator (AEMO) has been managing that framework and has not previously identified any reason to contemplate delaying the implementation of Five Minute Settlement.

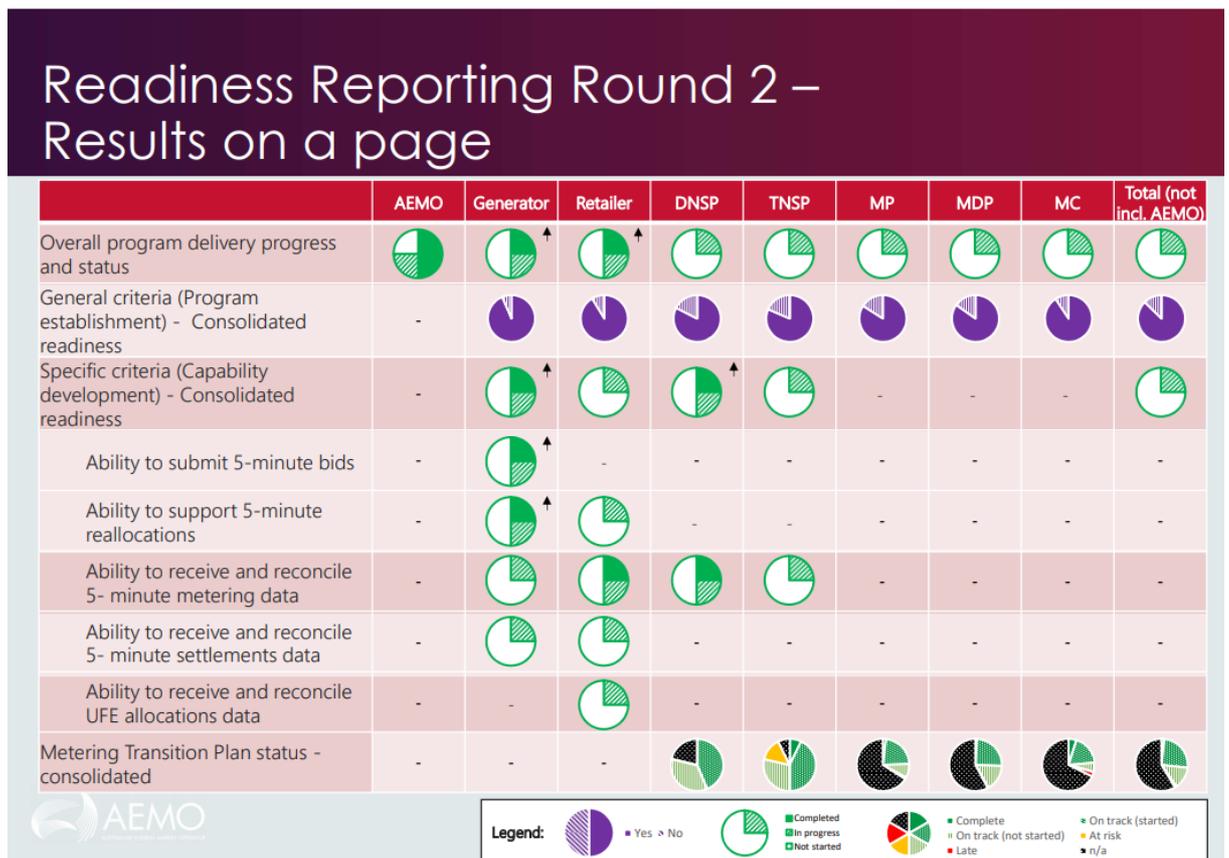
We note that the delayed implementation is being proposed by AEMO, but that AEMO has indicated that does not need the delay the system changes it itself is making to support the implementation of the new arrangements.

¹ <https://energyconsumersaustralia.com.au/publications/five-minute-settlement-submission-in-response-to-the-aemc-consultation-paper>

² <https://energyconsumersaustralia.com.au/publications/five-minute-settlement-submission-aemc-directions-paper>



We further note that the AEMO 5MS & GS Readiness Working Group #11 on 14 May was presented with details from AEMO on readiness reporting Round 2 (which had a very high level of industry coverage). The 'results on a page' presented at that meeting is reproduced below. This indicates that implementation of 5 Minute Settlement is progressing well.

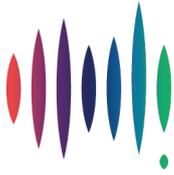


AEMO has proposed the delay because of a general concern about COVID19 related impacts which AEMO indicates are complex and broadly relate to the:

- ability of people to attend their places of employment;
- ability of people to work (either remotely or at their usual workplace);
- availability of healthy people to perform routine or specialist tasks; and
- ability of energy industry participants to continue to meet financial commitments as a result of significant revenue uncertainty.

Energy Consumers Australia acknowledges the disruption caused by the pandemic and the government response to it, we also note that government is already moving to lift some of the restrictions. Further we note the rule change proposed by the Australian Energy Regulator (AER) that will significantly alleviate the financial impact on retail and wholesale market participants.

Further, the resource limitations being experienced by market participants may require reprioritization of work; we believe the AEMC should require market participants who support the proposed delay to detail what other projects putting demand on resources that these participants are prioritizing over the implementation of Five Minute Settlement. The AEMC should form a view on whether the prioritization



of the participants reflects the promotion of the long-term interests of consumers or is based on some other criteria.

Putting first things first

The Australian electricity system is undergoing a transition from being a *small number of large things* to a *large number of small things*. If the transition is not managed well, risks may emerge in relation to reliability of supply (either through insufficient generation resource or from system instability) or maintaining reliability but at increased cost to consumers. Managed well it offers the prospect of an energy system with greater reliability at lower cost.

In a 1954 speech to the Second Assembly of the World Council of Churches, former U.S. President Dwight D. Eisenhower, quoting an unspecified college President, said: "I have two kinds of problems: the urgent and the important. The urgent are not important, and the important are never urgent."

This "Eisenhower Principle" is said to be how he organized his workload and priorities.⁴ The 'Eisenhower matrix' refers to a two-by-two grid for decision making that distinguishes tasks on their degree of urgency and their degree of importance and was popularized by Steven Covey in his *7 Habits of Highly effective People*. The matrix (as shown in the example to the right) then divides tasks (reading left to right, then top to bottom) into those that need to be done now, scheduled, delegated or deleted.



One of the important consequences of practicing this kind of prioritization over time is that the number of tasks in the first quadrant continually declines.

As the recent prioritization exercise undertaken by the three energy market bodies to inform their response to COVID19 revealed, there are currently a plethora of ongoing projects. The exercise revealed there are more projects than industry resources available for consultation, development and implementation can handle.

Generally, these projects fall into one of two categories. The first category are projects that are designed to support the transition by making more effective use of the new resources becoming available to the grid. We put Five Minute Settlement and the Coordination of Generation and Transmission Investment (COGATI) into this category. The second category are projects that seek to manage how new resources are 'integrated' into the National Electricity Market (NEM), often by the ability to constrain them. We put 'ahead markets' and the proposals to enable the market operator to control distributed energy resources into this category. We contend that projects of the first kind fall

⁴ <https://quoteinvestigator.com/2014/05/09/urgent/>



into the high importance but low urgency quadrant, and that we are perceiving the second kind as urgent and often with levels of importance that many participants think is over-stated.

The Energy Council, the Energy Security Board, the market bodies and industry should focus on achieving the important but not urgent tasks for managing the energy transition to secure the long term interests of energy consumers.

We also note the value in the recent prioritization exercise and that there is a case for it to become a permanent feature of the market bodies project management framework. The Energy Council published the Strategic Energy Plan in November 2019.⁵ While this plan is comprehensive, it remains very high level and needs to be supported by an 'Operating Plan' maintained by the market bodies. The Operating Plan needs to include industry-wide prioritization of the reforms necessary to achieve an energy transition that delivers better reliability at least cost. A key element of the Operating Plan should be applying a prioritization that reflects the prioritisation matrix.

Conclusion

Energy Consumers Australia is not in a position to know, with precision, the resourcing and other constraints energy companies are facing, and the extent to which they can be reasonably managed. We do know however that the economy is not operating at capacity, and there are almost certainly resources that could be utilised by energy companies to support the implementation of the Five Minute Settlement arrangements.

We do not believe that delaying the implementation of five-minute settlement is the best response to the industry issues identified by AEMO. Even were those issues to mean that delay should be contemplated, alternatives are for industry to procure additional resources and for government to ensure financial support for market participants should be explored.

Overall, the call to delay the implementation of Five Minute Settlement highlights the need for clear, sector-wide priorities to manage to transition. The incentives of incumbents will not always be to support reforms that will benefit consumers in a market in transition. Clearly articulated priorities, managed through a transparent Operating Plan, is needed to keep the sector moving forward.

If you have any questions on this letter please direct them to Chris Alexander, Director Advocacy and Communications at chris.alexander@energyconsumersaustralia.com.au.

Yours sincerely,

Lynne Gallagher
Chief Executive Officer (Interim)

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<http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/Strategic%20Energy%20Plan%20November%202019%20-%2020200120.pdf>