Delayed implementation of five minute and global settlement

Final determination and rule published

The Australian Energy Market Commission (AEMC) has published a final determination and rule that delays the commencement of the Five minute settlement (5MS) and Global settlement and market reconciliation (GS) rules by three months.

The final rule

The Commission has made a rule to delay the commencement of the 5MS by three months to 1 October 2021 and GS by three months to 1 May 2022. A three month delay balances the capacity constraints placed on the industry by COVID-19 against the additional costs and deferred benefits associated with a longer delay to the commencement of the respective rules.

The rule change request

Given the impact the COVID-19 pandemic is having on the economy and the energy industry, and the industry-wide effort to implement the 5MS and GS rules, AEMO submitted a rule change request seeking to delay the start date of the 5MS and GS rules by 12 months. AEMO proposed that the delay would allow industry participants to focus on the ongoing supply of energy as an essential service, and support for customers, as they deal with the broader economic and social impacts of COVID-19.

The impact of COVID-19 on the electricity sector

COVID-19 has had a short term impact on industry capabilities to implement 5MS and GS and meet business responsibilities to supply energy and support customers. During the initial phases of COVID-19, Australian governments enforced lock downs which meant that participants needed to transition their employees to work from home. Social distancing restricted the ability of staff and contractors from attending sites to perform works. In addition, pandemic restrictions forced the shut down of IT vendors located overseas, that were developing 5MS IT systems for participants.

These COVID-19 impacts have put a strain on participant capabilities, slowing or delaying their 5MS and GS implementation programs. Participants have diverted resources and management focus away from implementing 5MS and GS and towards meeting business-as-usual activities and new regulatory expectations, including the support of pricing relief packages for customers impacted financially by COVID-19. The disruption caused by COVID-19 could mean that participant resources are stretched between implementing 5MS and GS and their readiness preparations for the upcoming summer period, if the original 5MS and GS timeframe was retained.

The rule change proposed a 12 month delay to the commencement of 5MS and GS and the Commission found that this period of time was too long. The impact of COVID-19 on industry capabilities was only in the order of two to three months and participants have so far had a number of years to implement each of the 5MS and GS reforms.

The costs of delay to 5MS and GS compared to the benefits of proceeding

COVID-19 has already had a significant impact on the Australian economy. Increased unemployment, lower wages and an expectation not to disconnect customers for non-payment has had a negative impact on participants' cash flows, and the impacts may grow over time, particularly after government financial support schemes are wound back. An

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increase in customer debt has the potential to threaten the financial viability of smaller retailers, who had small margins prior to COVID-19.

The implications of the proposed 12 month delay to the commencement of 5MS and GS are outlined below.

- It would create cash flow benefits from deferring implementation expenditure, however 5MS and GS project costs would increase and overall industry cash flows are expected to be worse than not delaying 5MS and GS.
- It would not impact participants equally, with those participants that are more progressed with their implementation programs being more adversely impacted by a delay than those that were less progressed.
- It would delay the realisation of short-term efficiency benefits associated with implementing 5MS and GS.
- It would not be an efficient or targeted way to address specific cash flow issues that a sub-set of participants may have. As such, it would not materially assist in avoiding potential financial contagion in the industry caused by COVID-19. Other more targeted measures may be better at addressing such issues.

The Commission determined that, while a 12 month delay could have cash flow benefits for participants, it would cost participants and the market more than a three month delay. A shorter delay of three months would:

- recognise the short-term impact of COVID-19 on participant capabilities
- not significantly increase or decrease 5MS and GS implementation costs
- not materially reduce the broader market and consumer benefits from the rules.

The period of delay to the commencement of 5MS and GS

In deciding on the length of delay to the start of 5MS and GS, the Commission sought to strike a balance between:

- providing a sufficient time for the market to account for the disruption to industry capabilities caused by COVID-19, and
- minimising delaying the realisation of benefits from 5MS and GS, and minimising the increase in implementation costs from a longer delay.

The Commission considers that a three month delay is in the long term interests of consumers because it balances these factors.

The Commission notes that this decision has been made under uncertainty relating to the financial and health impacts of COVID-19. While the COVID-19 pandemic infection rate has been low in Australia relative to most other countries, potential exists for a second or third wave of infections and lock downs in Australia. This decision is therefore made in the knowledge that COVID-19 impacts may change in the future, but no assumptions as to a material worsening or improving of conditions have informed this determination.

Commencement of the rule

The rule delays the commencement of some, but not all, aspects of the 5MS rule and the GS rule, as outlined below and in Table 1:

- the commencement date for the 5MS and GS rules is delayed by three months
- no delay for the provisions of all new and replacement meters to record and provide 5-minute data
- the date by which AEMO is to publish UFE reports and guidelines is delayed by three months.

Table 1: Original and new commencement dates for Five minute settlement rule and Global settlement rule

ASPECT OF RULE	ORIGINAL DATE	NEW DATE
Commencement of 5MS	1 July 2021	1 October 2021
Commencement of 'soft start' GS	1 July 2021	1 October 2021
Commencement of financial settlement of GS	6 February 2021	1 May 2022
Date for all new and replacement metering installations (other than excluded metering installations) to be configured to record and provide 5 minute data.	1 December 2022	1 December 2022
AEMO required to publish UFE report on unaccounted for energy trends	1 March 2022	1 June 2022
AEMO required to publish UFE reporting guidelines	1 December 2022	1 March 2023

Background on five minute settlement rule and global settlement rule

On 28 November 2017, the Commission made a rule to align operational dispatch and financial settlement at five minutes. The five minute settlement rule reduces the time interval for financial settlement in the NEM from 30 minutes to five minutes.

The benefits of five minute settlement include improved:

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

On 6 December 2018, the Commission made a rule to introduce a ‘global settlement’ framework for settlement of the demand side of the wholesale electricity market. The global settlement rule moves away from the current ‘settlement by difference’ approach.

The benefits of the global settlements rule include:

- improved transparency, leading to fewer settlement disputes between retailers and lower levels of unaccounted for energy over time.
- competition on equal terms between the local retailer and other retailers
- improved risk allocation, so that risks are allocated to those parties that are best placed to manage them.

Expedited rule change process

The Commission determined that the rule change be considered under an expedited rule change process as it was a request for an urgent rule. The Commission received one objection to the use of an expedited rule change process. The objection was assessed and the Commission decided in accordance with the NEL that the rule change should continue under the expedited rule change process. The AEMC received 48 stakeholder submissions to the rule change request.

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