Ref: ERC201

5 May 2017

Attention: Mr Ben Noone
AEMC
ELECTRONICALLY SUBMITTED

Dear Mr Noone

National Electricity Amendment (Five Minute Settlement) Rule 2016

CS Energy welcomes the opportunity to respond to the Directions Paper on the proposed Rule amendment Five Minute Settlement.

CS Energy's vision for the power market auction:

The Rules should look to allocate the responsibility for reliability and system security on Market Participants as this will reveal an efficient cost through competition.

Once the power market auction's deficiencies are resolved, such as using real time calculations and more sophisticated computation, security limits could be incorporated into dispatch calculations and scarcity reflected in the price(s) when the auction clears.

With efficient marginal price signals, in the longer run, new and old technologies compete in the energy-only market without heavy regulation, specifications or compliance obligations. This will include consumers revealing their price elasticity, removing the missing money problem that occurs in energy only markets when consumer demand is rationed without reference to price (load shedding).

This vision can be achieved through improvements to the auction.

How this vision applies to the 5 minute settlement rule proposal

CS Energy considers more marginal pricing, if done well, will improve marginal decision making and satisfy the NEO. To do it well requires prudently resolving the dispatch interval 'boundary' issue which exists with the 5 minute settlement proposal and seeking to use the change to provide additional benefits, such as in frequency control and the opportunity to reduce compliance requirements.

Whilst CS Energy cannot endorse the proposals in the Direction Paper, you will be pleased to discover it has developed, in conjunction with Intelligent Energy Systems ('IES'), an alternative proposal that should satisfy the Commission.

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Using the assessment framework contained within the Directions Paper, CS Energy is of the opinion the IES proposal compares more favourably to the existing Rule and the proposal for 5 minute settlement. In particular, it is noted the proposal:

1. will result in prices that reflect changes in supply and demand in real time, which is a better reflection of marginal cost;

2. properly values generation and demand response flexibility: not over or under remunerated as respectively results from either the 5 min or 30 min settlement options;

3. does not favour slower response, (as is the case with 30 minute settlement) and will not favour uncontrolled switching response (as is the case with the 5 minute settlement proposal), and is therefore technology neutral;

4. allocates costs through prices that reflect the marginal cost of supply, improving marginal decision making and therefore reducing price risk exposure;

5. improves marginal cost incentives to allow effective supply and demand side competition, without scheduling or regulating these suppliers; and

6. improves marginal decision making that will reduce the need for compliance obligations, specifications, controls and technical standards. Payment on performance rather than enablement will improve quality standards. This reduces the regulatory and administrative burden for both the regulated and the regulator.

Yours sincerely,

David Warman,

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