17 October 2017

Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

DRAFT RULE DETERMINATION – National Electricity Amendment (Five Minute Settlement) Rule – "ERC0201"

Sumo welcomes the opportunity to respond to the Australian Energy Market Commission's 'Five Minute Settlement' draft rule determination.

Sumo is a dynamic new entrant energy retailer and is one of the fastest growing in the market. It commenced operations mid-2015 and now services over 27,000 small electricity and gas customers in Victoria. It is also authorised to retail electricity in New South Wales, Queensland, South Australia, Tasmania and the ACT.

Sumo welcomes reforms that support innovation in energy markets. While the impact of five-minute settlements on bidding behaviour and, ultimately, on wholesale prices is difficult to predict, we expect that the proposed change would be likely to benefit forms of electricity dispatch that can respond the most quickly to price signals, and so would – over time – reduce volatility in the spot market.

We caution that the implementation of five-minute settlements will create a transition period of uncertainty and volatility, as participants work out how they will operationalise the new rules. This uncertainty will translate into higher premiums for hedging products during this period. Assuming a transition period of up to two years from its implementation in 2021, and a futures market that looks ahead three years, the rule change could mean higher electricity hedging costs until 2026. We recommend that the AEMC consider ways to lessen the impact of this transitional impact for retailers.

Sumo supports the proposed implementation timeframes. A start date of July 2021 should allow sufficient time for the significant systems changes required and for the roll-off of existing hedging contracts (which are based on 30-minute settlements).

Please contact me if you would like to discuss any aspect of this submission.

Yours faithfully

Alex Fleming
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