23 May 2017

Mr B. Noone
Project Leader
Australian Energy Market Commission
6/201 Elizabeth Street
SYDNEY NSW 2000

Via email to Ben.Noone@aemc.gov.au

Dear Mr Noone

AEMC Directions Paper: 5 Minute Settlements (Ref: ERC0201)

Thank you for the opportunity to respond to the Australian Energy Market Commission (AEMC) Directions Paper and associated report prepared by Energy Edge regarding this proposed rule change. As requested by the AEMC, Aurora Energy has addressed a number of the questions outlined in the Directions Paper in the attached table.

More broadly, Aurora Energy recognises that the proposed rule change has gathered momentum as a measure that could potentially enhance reliability and system security during the current transition to renewables occurring across the National Electricity Market. Whilst Aurora Energy supports these objectives and the broader transition, the magnitude of the proposed rule change is significant and careful consideration is required to ensure that the benefits of the proposed rule change will outweigh the costs. Based on the information provided to date, Aurora Energy considers that this case is yet to be made.

For example, the assessment of benefits does not take into account any changes in generator behaviour that may arise from the proposed rule change or adequately quantify the potential impact on the risk management products utilised by market participants to manage price volatility. In addition, the costs of the rule change have not been fully quantified and are likely to be significant for electricity retailers. As these costs are likely to be passed-through to customers, detailed customer impact modelling should also be undertaken.

It is also unclear whether one of the key stated benefits of the proposed rule change, to improve market entry for fast-response generation, would be realised in Tasmania given the current structure of the Tasmanian wholesale market. As such, Aurora Energy is concerned that the proposed rule change has the potential to simply impose additional costs on Tasmanian customers with no commensurate benefits.

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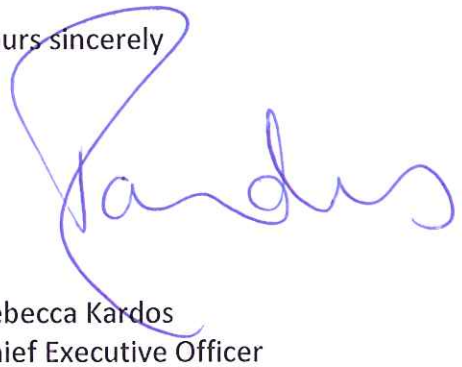
Taking these factors into account, Aurora Energy recommends that the AEMC prepare a detailed cost-benefit analysis of the proposed rule change prior to proceeding to the Draft Determination stage. This analysis could be informed by cost estimates prepared by market participants and also take into account the impact of the new rules at a jurisdictional level if required.

If you have any queries in relation to this submission, please contact Jonathon Bellette, Manager Strategy & Financial Analysis on 6237 3235 or via email: jonathon.bellette@auroraenergy.com.au.

Yours sincerely



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Question #	Question	Aurora Energy Response
1(a) – (b)	(a) How suitable is the proposed assessment framework for this rule change request? (b) Are there any additional factors that should be considered in assessing this rule change request?	As customers are likely to bear the majority of costs arising from the rule change, Aurora Energy considers that detailed customer impact modelling should be undertaken to inform a full cost-benefit analysis prior to the rule change proceeding to the Draft Determination stage. This modelling should consider both direct impacts (such as the pass-through of system costs incurred by retailers) and indirect impacts (for example, any supply disruptions for meter re-programming or exchange). Given the level of uncertainty evident in the Directions Paper regarding the likely impact of the rule change at a physical and contract market level, the AEMC should also consider establishing a set of criteria that need to be met before deciding to proceed with the rule change (rather than implement the new rules within an arbitrary set timeframe). Further, Aurora Energy notes that the AEMC is considering the materiality of costs associated with the proposed rule in the context of total revenue. Aurora Energy considers that materiality should be assessed against retail margin as this more appropriately represents the capacity of retailers to fund costs associated with the rule change.
2(a)	How material are the price signal inefficiencies under 30 minute settlement and are there other data or data sources that would enable this issue to be more comprehensively addressed?	As Aurora Energy operates solely in the Tasmanian market, it does not have a view on the materiality of potential inefficiencies across mainland jurisdictions in the National Electricity Market. However, it is unclear whether the stated benefits of the proposed rule change would be realised in the Tasmanian wholesale market given the current structure of this market with one large generator and predominantly hydro-generation.
6(a)	How material are the issues identified around demand-side optionality? Are there any material issues or benefits that have not been identified?	Aurora Energy does not support demand-side optionality as a temporary or permanent measure and considers that if 5-minute settlements are to be implemented, it should be a firm requirement for all market participants.
6(c)	How might the contract market react if demand-side optionality is adopted on a temporary basis?	Allowing demand-side users optionality over 5-minute settlements could potentially result in two distinct contract markets emerging for 5-minute and 30-minute contract periods. In Tasmania, the availability of fast-start generation that can respond and sell caps into a 5-minute market is expected to be much lower than current primary cap generator sources (hydro and gas) that take longer to fully respond to a 5-minute signal.

Question #	Question	Aurora Energy Response
7(b)	What percentage of meters can be remotely reconfigured? What would this process look like and what would costs be? Conversely, what percentage would need to be manually reconfigured or replaced?	Aurora Energy has around 96% of total Tasmanian customers, including all small customers consuming less than 150MWh that are on a price-regulated standing offer contract. Around 98% of Aurora Energy's customers have a basic Type 6 accumulation meter that is read on a quarterly basis. Aurora Energy expects that it could continue to apply current processes to settle these customers on a 5-minute basis under the proposed rule change without replacing these meters (with some potential costs involved in re-engineering the sourcing and processing of data). These meters will progressively be replaced with advanced meters under the new metering competition rule change over a 25-year estimated timeframe. The remaining 2% of Aurora Energy's customers already have an advanced meter that could be reconfigured at relatively small cost to enable these customers to be settled on a 5-minute basis.
8	To what extent would a transition period mitigate the one-off contract negotiation costs of a move to five minute settlement?	The use of a transition period would reduce the one-off contract negotiation costs associated with wholesale arrangements, however Aurora Energy considers that these costs are not material when compared to the broader IT and meter data management costs that would be incurred.
9(a)	To what extent would contract market liquidity be affected by a move to five minute settlement, as distinct from other pressures on liquidity?	There is the potential for reduced market liquidity in the unregulated contract market in Tasmania as the availability of fast-start generation that can respond and sell caps into a 5-minute market is expected to be much lower than current primary cap generator sources in Tasmania (hydro and gas). The proposed move to 5-minute settlements is likely to see the liquidity offered by these providers reduce, and prices increase, as their ability to cover a $300 cap contract would be compromised. Tasmania also has a regulated contract framework that references Victorian contract prices, however, the proposed rule change appears unlikely to materially impact this framework.
10	What are the costs, synergies and risks involved in upgrading IT systems to accommodate five minute settlement?	The transition to 5-minute settlements would significantly impact Aurora Energy's data collection, billing, reporting and settlements processes and the magnitude of this transition is expected to be similar to the current project being undertaken to prepare for the metering competition rule change. This project, which will transition customers to 30-minute settlements as advanced meters are rolled-out, has an estimated total project cost of around $20M to Aurora Energy.

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10(b)	What timeframes are required to upgrade IT systems?	Given the magnitude of the expected systems impact from the proposed rule change, and taking into account the experience from the metering competition project, Aurora Energy expects that it would take a large dedicated project team around 18 months to undertake the required upgrades to its systems to accommodate 5-minute settlements.
11(a)	Are there any further categories of costs that would be incurred if five minute settlement was adopted?	In addition to internal and external ICT systems costs, Aurora Energy would expect the following additional costs for metering: • changes to existing interval meters to accommodate 5-minute data; • reprogramming of new and replacement meters for 5-minute data prior to installation; • potential acquisition of different meters capable of handling 5-minute data; • contract variation for newly formed MC/MP/MDP arrangements under the metering competition rule change; • additional bandwidth for metering communications; • additional MDP costs passed through for increased storage, validation costs in their MDMS and gateway systems; • additional MDP costs for increased meter reading frequency for type 4A meters (unless significantly greater memory is made available in the meters); and • later delivery of NEM12 data, which has impacts on customer experience for new Prepayment customer segment. These costs are likely to be material from both a one-off and ongoing perspective.