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19 June 2020

Submission to Delayed implementation of five minute and global settlement rule change (ERC0298)

AGL Energy (**AGL**) welcomes the opportunity to comment on the Australian Energy Market Commission's (**AEMC**) Consultation Paper on the Delayed implementation of five-minute settlement (5MS) and global settlement (GS) rule change.

AGL is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator, and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL is also a significant retailer of energy and provides energy solutions to over 3.5 million customers in New South Wales, Victoria, Queensland, Western Australia, and South Australia.

During the evolving COVID-19 pandemic, we are committed to supporting our customers and the community. We have also undertaken a number of internal measures to ensure our generation sites continue to support safety, reliability, and security of supply of electricity to the NEM.

As a result of COVID-19, AEMO has noted the costs and resource challenges that NEM participants will face may put pressure on participants ability to provide a reliable supply of energy and related customer services. Where appropriate, the purpose of the proposed delayed implementation to 5MS and GS rule change is to alleviate these resource challenges and to preserve financial resilience of the energy industry.

AGL does not require a delay to 5MS and GS

Whilst customer and system support are a key focus for AGL, the impact of COVID-19 has not limited our capacity to continue the required upgrades to our IT systems in preparation of the 5MS and GS start dates. The system changes are well advanced, with a significant component of the work already complete and resources already committed for the final stages of the system upgrades. We therefore remain committed to the IT system upgrade within the original transitional period.

We are mindful that to successfully upgrade our IT systems we are also reliant on access to the upgraded AEMO systems and meter data, along with broader industry readiness to effectively test our systems and trial five-minute bidding and settlement. Therefore, should the AEMC consider a delay is necessary, any delay will lead to additional project implementation costs for AGL.

If a delay is considered necessary, we encourage the AEMC to consider if there is an opportunity to integrate a delayed implementation 5MS and GS into other upcoming market reform. We note there may be significant industry benefit to roll these changes into broader market reforms currently under consideration by the AEMC and the ESB.

The AEMC should also consider whether a blanket delay for industry is necessary or whether a more targeted delay can be implemented for those obligations that affect resource constrained NEM participants. In particular, we consider the installation of required meters along with the provision of five-minute meter data from meter data providers should not be delayed unless it is absolutely necessary. These requirements form a critical precursor to the completion of 5MS and GS system upgrades for the other NEM participants.

Please find attached our response to the consultation questions.

If you have any queries about this submission, please contact Kyle Auret on (03) 8633 6854 or KAuret@agl.com.au.

Yours sincerely,

Chris Streets

Senior Manager Wholesale Markets Regulation

AEMC

ATTACHMENT 1

SUBMITTER DETAILS

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CHAPTER 4 – SECTION 4.1 – TIME PERIOD FOR DELAY

Question 1 – Time period for delay	
a) If a delay to the start date of 5MS is necessary, is a 12-month delay appropriate? Alternatively, please explain why another time period is preferable and, if applicable, the implications on cash flow and capacity? Would the rules need to commence at the start of a quarter to align with the contract market, or could 5ms commence mid-quarter? What would be the impact of a mid-quarter commencement?	AGL does not require a delay to 5MS due to the impact of COVID on our business. We have already committed significant resources to the IT system upgrades to meet the original 5MS transitional period requirements. If the AEMC decides a delay is required, from a project implementation standpoint, the delay should be longer than 6 months. This will ensure we are able to effectively re-allocate our project resources during the additional delay period. However, consistent with the AEMC's reasons in the original rule change, we consider the start date should ideally be at the start of the financial year as this aligns with both wholesale and retail contract rollover.
b) What is the appropriate date for the commencement of the 'soft' and 'hard' starts for global settlement? Should this be a linear move by the number of months of delay, or should the dates change to another timeframe?	AGL does not require a delay to the GS start date due to the impact of COVID on our business. In the AEMC GS rule change determination, the AEMC determined a soft start period is necessary to provide retailers with time to assess the likely magnitude of UFE payments. This required the implementation of the GS changes to coincide with the start of 5MS. We consider the AEMC should preserve these implementation features should 5MS be delayed. We consider it remains appropriate that the hard start to GS commences at least 7 months after 5MS commencement. However,

	we note below there are benefits to the industry if AEMO can report on unaccounted for energy in each local area without delay.
c) If there is a 12-month delay to the start date of 5MS and GS, is it still appropriate that all new and replacement meters (other than 4A) installed after 1 December 2018, and type 4A meters installed after 1 December 2019, be required to record and provide 5-minute data by 1 December 2022? If not, why and what time period would be appropriate?	Yes, we consider this requirement remains appropriate. Where possible a delay to 5MS and GS, should not impede the implementation of the key meter data requirements or any associated changes that can be implemented without impacting settlements or scheduling.
d) If global settlement is delayed, by what date should AEMO prepare and publish the first report on unaccounted for energy required under cl 3.15B(a)?	We consider the publication of unaccounted for energy (UFE) data should published as soon as is possible. Under cl 11.112.5, AEMO is required to publish UFE data from 1 July 2021; at worst, a delay to this requirement should be equivalent to any delay to 5MS. However, if the necessary changes can be implemented for data delivery and settlement calculations, then AGL would support this activity starting as soon as possible. This will provide the industry with a greater lead time to assess the impact of UFE and how to efficiently address UFE within each local area. If a delay to GS occurs, AEMO should commence publication of the UFE reports as soon as is practicable. Currently cl 11.112.3 of the rules requires AEMO to publish the first UFE report (as required under cl 3.15.5B) by 1 March 2022. If a delay occurs, we consider it is appropriate to require AEMO to publish the first UFE report 6 months from when AEMO commenced publication of the UFE data. Ideally a delay to GS should not impede AEMO's ability to collate the information necessary to form these reports. We consider there is significant benefit to the industry if these reports are provided in advance of the delayed hard start date of GS. The information will assist participants in tracking how unaccounted energy may change over time. This will then in turn assist the industry to address efficient decreases in UFE over time.
e) Cl 11.112.6 states that AEMO must make and publish the unaccounted for energy reporting guidelines required under new cl 3.15.5B(d) by 1 December 2022. What is the appropriate date for the publication of these reporting guidelines if there is a delay to global settlement?	Regarding AEMO's current obligation under cl 11.112.6 to publish the UFE reporting guidelines by 1 December 2022, we consider any GS delay should also apply to the consultation of the UFE guideline. To appropriately consult on the UFE reporting requirements, the industry will need time to be sufficiently familiar with UFE data and the information that will facilitate an improved understanding of how to best address UFE. Therefore, AEMO should only finalise the guideline 11 months after the GS hard start date.

CHAPTER 4 – SECTION 4.2 – PARTICIPANT COSTS AND CAPACITY

Question 2 – Participant costs	
a) What is the expected impact of COVID-19 on participant cash flows? How material is this impact? How long are these cash flow impacts expected to last?	Whilst COVID-19 has impacted AGL, these effects do not constrain our ability to implement the system changes by the original 5MS and GS start dates.
b) For participants that are required to implement changes to IT systems and procedures for 5MS and GS, how would the proposed 12 month delay impact your implementation costs? Please quantify and provide evidence where possible. Any confidential cost information will be treated as confidential and redacted from submissions published on the AEMC's website.	THIS SECTION CONTAINS CONFIDENTIAL INFORMATION. We have already committed significant resources to upgrade our IT systems and implement new processes and procedures. We remain committed to the IT system upgrade within the original transitional period. However, we are mindful that to successfully upgrade our IT systems we are also reliant on access to AEMO systems and the provision of meter data, along with broader industry readiness to effectively test our systems and trial five-minute bidding and settlement. Given the IT upgrades are already well advanced, any delay will increase our project costs. **[Confidential: Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA) and sections 31 and 48 of the National Electricity Law.]**
c) To what extent can additional market testing periods run by AEMO minimise costs associated with the delayed commencement of 5MS and GS? To what extent do participants rely on B2B data flows for 5MS and GS testing?	Whilst we will need to test our systems with AEMO's systems, we are primarily concerned with broader industry testing through B2B data flows. For this to occur, there will need to be a sufficient number, and variety, of NEM test participants to meaningfully trial our system upgrades in a test environment. At this stage, it is unclear if there will be a sufficient number of NEM participants ready to participate for additional testing periods. In the interests of certainty, we consider it is better to establish when all NEM participants should be ready to trial the system changes through industry testing. Ideally this should occur as soon as possible to mitigate post implementation risks. We will actively seek opportunities to undertake discrete tests of our systems should the opportunity arise, such as the readiness of metering providers and distribution businesses to test our retail system changes.

Question 3 – Participant capacity

d) To what extent has COVID-19 affected participants' ability to implement the necessary changes for 5MS and GS by 1 July 2021?	The capacity of the 5MS project team has not been impeded by COVID-19 restrictions.

CHAPTER 4 – SECTION 4.3 – ELECTRICITY CONTRACT MARKET IMPLICATIONS

Question 4 – Electricity contract market	
a) To what extent have you purchased 5-minute cap products for FY 2021-22? What would the impact of a delay be to the value of those 5-minute cap products as risk management products for your business?	Given the contracts we have entered into for FY 2021-22, a delay to 5MS will have limited impact on AGL FY 2021-22 financial contracts. This is primarily due to the low volume of AGL OTC traded 2021 -22 five-minute cap contracts. We note the ASX is also yet to list these cap products for market trade.
b) Would a delay to commencement of 5MS impact swap, captions or any other financial hedging products trading for FY2021-22 and beyond? If so, how?	Whilst a delay to 5MS will result in additional administrative costs to amend these contracts the cost is marginal. We note commercial decisions, such as the acquisition of SRAs, have been made in anticipation of the current 5MS start date. Broadly, these decisions may be negatively impacted by a delay to 5MS. We are also mindful that increased risk and awareness of continual regulatory change are impacting financial markets. This market uncertainty and cost results in both liquidity risk and regulatory risk premiums (albeit hard to quantify).