11 June 2020

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Lodged electronically: www.aemc.gov.au (ERC0298)

Dear Commissioners,

AEMC 2020, Delayed implementation of five minute and global settlement, Consultation Paper

EnergyAustralia is one of Australia's largest energy companies with around 2.5 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, solar and wind assets with control of over 4,500MW of generation capacity in the National Electricity Market (NEM).

We welcome the opportunity to comment on the AEMC's consultation paper for the proposed delayed implementation of five-minute settlements[1] (5MS) and global settlements[2] (GS) rule changes. Both reforms constitute substantial changes to wholesale market settlements, and consequently require significant implementation efforts by market participants and AEMO.

We recognise the concerns raised in early 2020 that COVID-19 may affect participants' ability to successfully implement these changes, but we question whether this has materially occurred such that the costs of a delay are justified. **At this stage of process, we do not support a 12-month delay to the implementation of these reforms due to the expected increase in total costs to customers.** It is not clear that there are material aggregate benefits associated with a delay and there is likely to be project cost increases for participant and AEMO which will land on customer bills at a time when there are increasing numbers of customers in hardship.

In the attached document we have provided confidential responses to the questions posed by the AEMC in the consultation paper regarding the impact of COVID-19 on our business and 5MS implementation program. This cover letter details our views on issues beyond the scope of the AEMC's response template, primarily relating to the consultation process and framework, and our preferred approach to handling the impacts of the COVID-19 pandemic.

[1] https://www.aemc.gov.au/rule-changes/five-minute-settlement
[2] https://www.aemc.gov.au/rule-changes/global-settlement-and-market-reconciliation

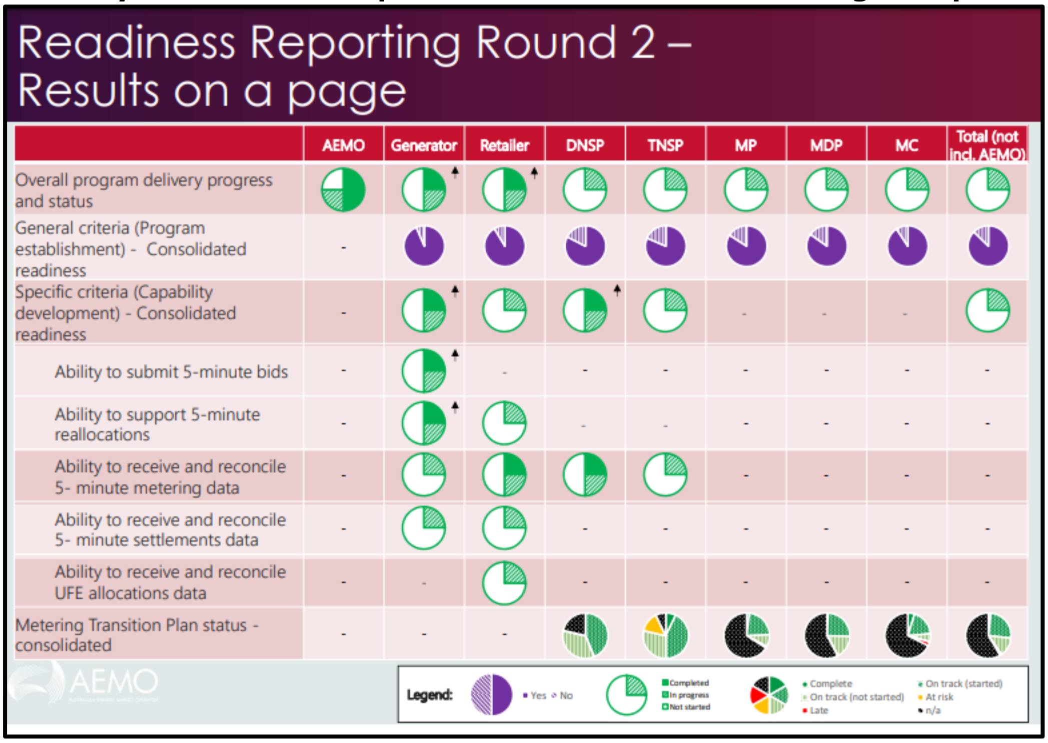
Further substantiation of the need for delay is required

AEMO did not consult with market participants prior to submitting its rule change request. AEMO’s proposal purports to be in the interest of market participants and customers, but it does not appear that market participants were comprehensively engaged prior submission to support this stated purpose. As a consequence, the rule change process has generated confusion and uncertainty.

We recognise that AEMO acted expediently to set the regulatory process in motion at the onset of the pandemic, cognisant that if a change was to be made a rapid decision, and certainty of implementation date, were of paramount importance to participants. However, it appears minimal effort was made to substantiate the need for the rule change. There is no evidence that AEMO consulted broadly with retailers, generators, networks, metering providers, consumer groups or vendors prior to making this decision. AEMO operates numerous forums through which it could have formally, or informally, sought feedback including the NEM Wholesale Consultative forum (NEMWCF) and dedicated 5MS program forums such as the Readiness Working Group (RWG), the Program Consultative Forum (PCF) and the Executive Forum.

While the industry regulatory bodies did consult with stakeholders regarding the reform pipeline, this occurred on 21 April, after AEMO had submitted its rule change request on 9 April. Without substantive evidence of possible impacts, it is unclear how AEMO deemed it reasonable to request a delay. In the industry readiness self-reporting due 23 April 2020, participants reported no major issues with project implementation. This was two weeks after the rule change request was submitted.

Industry Readiness as reported at the Readiness Working Group 14 May 2020[3]



[3] https://aemo.com.au/consultations/industry-forums-and-working-groups/list-of-industry-forums-and-working-groups/5ms-readiness-working-group-rwg

We would have expected AEMO to make, at a minimum, a rough assessment of the possible impacts of both COVID-19 and a delay. Instead, this rule change request has been made in haste, lacking industry consultation and evidence.

As a result, the AEMC's consultation paper relies on speculation and expectation, rather than any substantiated data. The extent of the impact of COVID-19 on the industry is not clear, which has impeded our ability to assess the merits of this proposal as outlined in the consultation paper.

Framework for assessing impact on consumers

The AEMC needs to provide clear guidance in its final decision as to how it has assessed the various costs and benefits associated with a delay.

In discussions at industry forums over the past two months it has become apparent that there is a wide range of costs and benefits associated with a delay and the consultation paper has not well articulated how these elements will be assessed.

There are several trade-offs to be made. The aggregate costs of program delays versus the aggregate impact of no delay. The sum of delayed benefits realisation versus the benefits of a delay. Based on industry discussions, there does not appear to be a consensus industry position on this proposal and the AEMC has the difficult task of assessing and judging the overall impact of COVID-19 against the impacts of a delay.

The AEMC could conduct either a quantitative analysis, or a qualitative analysis. If a quantitative analysis is not conducted, the AEMC will be required to make judgements about which types of costs are more significant.

In doing so, the AEMC is at risk of passing judgement on which types of costs matter the most. Some participants will benefit from a delay, others will not. Without making an objective decision on net financial impact on the market, or at least a subjective decision based on clear framework, the AEMC is at risk of arbitrarily picking winners.

The AEMC should be clear in its decision about how it has weighed the different impacts and how the decision will minimise the risks and costs to customers. This assessment framework will be setting a precedence for how any future reform delays are considered and how winners and losers of delays are created by the AEMC.

The AEMC should also obtain, and publish, the cost impact of a delay for AEMO.

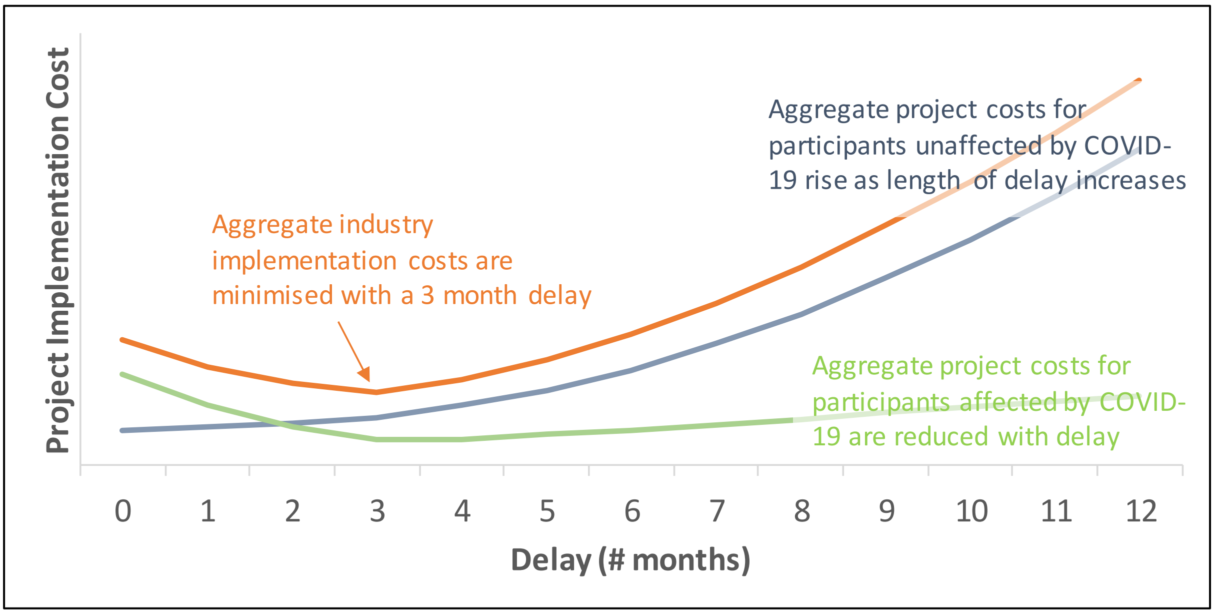
In our view, the priority should be ensuring overall costs for customers to implement 5MS and GS are minimised. This is most critical now as we face a national recession, rising unemployment and increasing numbers of customers are facing financial difficulty.

Finding the sweet spot in cost impact minimisation

As some parties may have faced short term issues with resourcing as we shifted to new working conditions, a short delay may be needed. Should this be the case, the AEMC should ascertain what length of delay will minimise overall costs. There will be a turning point at which costs can be minimised. A 12-month delay may impose overall project cost increases that exceed the costs of not delaying. A 3-month delay may suitably support those that have faced challenges over the past few months, while not creating excessive cost increases for AEMO and other participants.

Without conducting detailed analysis the AEMC will be unable to make an informed decision about cost impacts on customers of the different options.

Indicative overall project costs



A delay of 3 months would also align well with the implementation decision for Wholesale[4] Demand Response of October 2021, supporting cost savings in project implementation overheads for both of these projects.

Alternative approach to minimising the impacts of COVID-19 for consumers

The greatest support the AEMC could provide to the sector in the face of an economic downturn would be to consider how best to implement its reform agenda with the lowest overall costs for consumers. We understand that the merits of 5MS are out of scope in this process. However, the impact of COVID-19 on costs and market resilience is within scope and should have been considered with greater diligence.

The industry is anticipating significant costs associated with the ESB's 2025 Market Design program. The exact details are yet to be determined but we anticipate there will be changes required to settlements, dispatch and market operations, all areas affected by 5MS.

With a 12-month delay, industry is investing significantly in redesigning its systems, shortly before another major redesign. This is analogous to renovating a kitchen 2 years before you restructure your house and move the kitchen entirely. We will have 2 years of stability before the market systems are substantially changed again. This ultimately increases costs for customers as the overhead costs for projects are incurred twice.

[4] https://www.aemc.gov.au/rule-changes/wholesale-demand-response-mechanism

A more prudent approach, would be to pause implementation until the remaining changes required to settlements systems are resolved, allowing for a coherent and singular implementation program.

To assess the merits of this approach, we ask the AEMC to consider the magnitude of realised benefits that would be delayed with a 12 month pause, with the magnitude of realised benefits that are deferred under a 24-36-month delay.

In terms of impacts on cash flow and relief for retailers, it is likely that the largest impacts on retailer revenue will occur in 2021/22 as customer debt accumulates. Short term relief for costs in 2020 will be less significant than longer term implementation cost reductions. Reducing costs to customers and optimising the efficiency of the market should always be the AEMC's focus as prescribed by the NEO.

For avoidance of doubt, we are not advocating for 5MS to be reconsidered in the ESB's program, but for its implementation to be co-optimised with the 2025 market design.

Opportunity to improve the reform if decision is made to delay

Should the AEMC choose to delay the program, there are a number of improvements that could be made to the rule, given the increased implementation time. An example of this is the extension of 5-minute pre-dispatch.

In the final decision, and in subsequent implementation discussions with AEMO, the decision was made to not extend 5-minute pre-dispatch beyond 60 minutes. This decision appears to be due to implementation effort required by AEMO. If the reforms are given another 12 months for implementation, we suggest this decision should be revisited.

Without extending 5-minute pre-dispatch, it is our view that the expected benefits of 5MS cannot be fully realised.

First, the lack of extended granular forecasts will make it difficult to plan dispatch decisions. This will affect the types of generation the AEMC anticipates will be most responsive to 5-minute peak prices. Energy constrained assets need to identify the optimal time to charge and discharge to optimise dispatch over peak periods, and slower start intermittent plants need to optimise unit commitment decisions prior peak periods. While 30-minute pre-dispatch provides some information, it smooths over the intra-period volatility and obscure the exact number of 5-minute trading intervals in which prices may be high. The 1-hour pre-dispatch timeframe does not cover the entire evening peak period, making it difficult for generators to assess their commitment requirements.

A lack of visibility could lead to

- fuel constrained units, such as batteries and some gas, dispatching too early (or not at all), leading to higher prices and possibly supply shortfalls later in the day;
- non-fuel constrained peaking plants running for the duration of the period 'just in case' leading to high cost fuel consumption, and

- demand response being ineffectively deployed due to advance notice requirements - one hour may not be enough time for DR portfolios to be activated in anticipation of high prices.

We recommend the AEMC consider adjusting the rule to ensure there is a 5-minute resolution for 3 hours ahead, updated every 5 minutes.

Final comment

Given the apparent level of industry readiness, the likely increases in costs and risks generated by a delay, and the lack of clarity on the need for this deferral, we do not think a delay is the prudent decision. A 12-month delay places additional cost pressures on the sector that have not been well justified nor are they prudent in the current economic climate.

Should you wish to discuss these further, please contact me on 03 9976 8482, or Georgina.Snelling@energyaustralia.com.au.

Regards

Georgina Snelling

Industry Regulation Lead

AEMC

ATTACHMENT 1

STAKEHOLDER FEEDBACK TEMPLATE

The template below has been developed to enable stakeholders to provide their feedback on the questions posed in this paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to assist it to consider the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the consultation paper. Stakeholders are also encouraged to provide evidence to support claims where possible.

SUBMITTER DETAILS

ORGANISATION:	EnergyAustralia
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EMAIL:	Georgina.snelling@Energyaustralia.com.au
PHONE:	03 9976 8482

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	EnergyAustralia does not support a 12-month delay to 5MS. This outcome would increase costs, increase project complexity and increase project risk. **Costs:** A delay to implementation is likely to increase total aggregate industry costs of implementation. This will increase costs imposed on customers at a time when the economy is fragile and customers are increasingly facing financial hardship and difficulty paying bills. [redacted] **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.**

commence mid-quarter? What would be the impact of a mid-quarter commencement?	[redacted] [redacted] **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.** **Complexity & Risk:** The delay in implementation is likely to increase the complexity of our project. Unrelated internal projects that are being, or have been, scoped or built for implementation after July 2021 will need to be reconsidered and re-designed and/or delayed. Changes to timelines and project requirements increase costs and risks associated with these projects. The changes increase the complexity of their delivery, especially if they overlap with deferred 5MS & GS program tasks; this may necessitate changes or additions to environments and requirements. [redacted] A further complexity relates to industry testing. Should EnergyAustralia chose to continue with some, or all, of its implementation plans related to 5MS and GS, there is no guarantee that there will be suitable testing parties available. This adds risk and complexity to the project if only incomplete testing is available. [redacted]

	Finally, our understanding is that industry has been progressing well with preparations, with no known red flags. We have concerns that a delay may put this in jeopardy. As projects are scaled down and up, the discontinuity of knowledge and understanding of the changes may put readiness at risk as the inertia for implementation is dampened. Commencement of 5MS between November and March would be ill-advised due to possible coincidence with a period of high temperatures and high prices. These periods bring additional stress to both AEMO operations and participant's Trading teams that would be placed under additional stress if required to adopt bidding changes associated with 5MS during this time.
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?	Our preference is for a linear shift in dates.
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?	
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)?	Our preference is for reports to be calculated ahead of the rule change implementation as much as possible to understand impacts of the new calculations on the business.
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?	

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?	See confidential answer to Question 1 regarding impacts.
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.	See confidential answer to Question 1 regarding implementation impacts
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?	There may be issues with B2B testing if the introduction of new NMI classification codes are not aligned with the delayed go-live, or if participants don't correctly adapt to the change of dates.

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?	EnergyAustralia has not experienced any substantive negative impacts of COVID-19 on our current project. **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.**

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?	The ASX has not yet listed a 5-minute cap product. All such trades are occurring OTC. **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.**
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?	

CHAPTER 4 – SECTION 4.4 – DELAYED BENEFITS

Question 5 – Delayed benefits	
a) To what extent were investments that have been made, or are planned to be made, in technologies that are capable of responding to a five-minute price signal, dependent on the 5MS rule commencing on 1 July 2021, as opposed to other factors? What effect would a 12-month delay have on the expected return on investment for these assets? Please quantify and provide evidence, noting that submissions can be treated as confidential if requested, or confidential information can be redacted from submissions published on the AEMC's website.	

b) To what extent would a 12-month delay to the start of 5MS and/or GS delay the realisation of other benefits for individual participants and/or the industry as a whole? Please quantify and provide evidence, noting that submissions can be treated as confidential if requested, or confidential information can be redacted from submissions published on the AEMC's website.	The delay in global settlements will delay the onset of benefits associated with this change in identifying and remedying unaccounted for losses. The current settlements by difference arrangement is out of date and continues to allocate costs to incorrect retailers (and subsequently customers). A delay in 5MS and GS will likely delay the implementation of innovative retailer products associated with the use of 5-minute demand profiles.

CHAPTER 4 – SECTION 4.5 – IMPLICATIONS OF DELAY ON RULE DRAFTING, PROCEDURES AND DETERMINATIONS

<table>
<tr><th colspan="2">Question 6 – Drafting and procedure implications of delay</th></tr>
<tr><td>a) Is there any feedback on the high-level description of a potential rule presented in Appendix A? Are there any other interactions with affected rules and schedules that have not been identified?</td><td>A delay in 5MS is likely to complicate delivery of Demand Response. A suspended 5MS will create ambiguity around system changes. Under the currently proposed schedule, 5MS will be implemented in July 2021, with Demand Response slated to commence 3 months later in October 2021. This date allows for a clean introduction of DR on a 5-minute basis. This means baselining, pricing and settlements systems required for Demand Response are designed on a 5-minute basis. The proposed delay for 5MS will require the implementation of Demand Response systems using 30-minute data, followed by revised systems on a 5-minute basis following commencement of 5MS in July 2022, increasing the overall cost of delivery for both participants and AEMO.
<table>
<tr><th></th><th colspan="2">2020</th><th colspan="4">2021</th><th colspan="4">2022</th></tr>
<tr><th></th><th>Q3</th><th>Q4</th><th>Q1</th><th>Q2</th><th>Q3</th><th>Q4</th><th>Q1</th><th>Q2</th><th>Q3</th><th>Q4</th></tr>
<tr><td>Current scenario:</td><td></td><td></td><td></td><td></td><td>5MS start</td><td>Proposed DR start</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td colspan="5">Build and test DR using 5MS environment and systems</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Delayed 5MS scenario:</td><td></td><td></td><td></td><td></td><td></td><td>Proposed DR start</td><td></td><td></td><td>5MS start</td><td></td></tr>
<tr><td></td><td colspan="5">Build and test DR using existing environment and systems</td><td colspan="3">Re-implement DR using 5MS environment and systems</td><td></td><td></td></tr>
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<tr><td>b) Should AEMO, the AER and the IEC be required to review and if necessary, amend their relevant</td><td>AEMO, AER and IEC need to review any procedures that have had changes made due to 5MS AND any other changes made since the 5MS edits were completed. There is already a great deal of complexity associatd with the different versions of documents as changes have been made to reflect different regulations commencing at different times. If changes were</td></tr>
</table>

procedures to take into account a delay to five minute and global settlement?	originally intended to occur after 5MS started and will now occur before, we need confidence that the procedures will accurately reflect this. All 5MS affected procedures should be reviewed to ensure there are no inconsistencies or issues caused by 5MS changes becoming 'active' too early due to editorial oversight. For example, revisions were made to MSATS Standing Data procedures for 5MS, then further revisions were made for Consumer Data Rights, thirdly AEMO is currently consulting on these procedures again as part of the MSATS standing data review. If the delivery of these reforms is resequenced, the 'active' version of the procedures will need to be assessed for accuracy under a 5MS delay.
c) In its rule change request, AEMO proposes that there should be no consultation on any changes to its procedures if those changes are solely related to a delay to five minute and global settlement. Are there any reasons that this could be an issue?	We are comfortable with not mandating consultation for these procedures. However, AEMO should be required to conduct a thorough review of any interdependencies and ensure that the versions that will be taking effect capture the correct changes at the right time. AEMO should be required to report back (by September), that there are no change required to any version of the procedures. If changes are required that are more than just administrative, AEMO should consult with stakeholders.