

14 June 2016

John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Dear Mr Pierce,

### **Five Minute Settlement ERC0201**

Hydro Tasmania welcomes the opportunity to provide comment on the consultation paper for the proposed Five Minute Settlement Rule change. As a market participant, Hydro Tasmania has a strong interest in proposed changes to national electricity market arrangements.

Hydro Tasmania supports the Australian Energy Council's submission and wants to emphasise the following issues in particular. Hydro Tasmania opposes the proposed Rule change as the high costs of this change will clearly exceed the benefit. The impact of changes in good faith bidding also need to be assessed prior to any further change in this area.

The following are the key reasons we oppose the proposed rule:

1. Problem materiality – The proponent has not demonstrated that there is a material problem
2. Changes to good faith bidding – Impact of these changes need to be assessed before imposing another solution on the problem of late rebidding
3. SCADA/settlement issues – These changes will introduce material costs on the market and potentially additional complexity and unhedgeable risks
4. Contract liquidity reduced – Having some settlements at 5 minutes and some at 30 minutes will reduce contract liquidity

#### **1 Problem materiality**

Sun Metals is of the view that the mismatch between dispatch and settlement intervals leads to inefficiencies in the operation and generation mix of the market. It submits that this aspect of the market design provides incentives for generators to withdraw capacity to influence price outcomes and impedes some categories of participants from entering the market.

Sun Metals note the theoretical inefficiency in the market from the mismatch of dispatch and settlement. They submit that this mismatch gives generators incentives to withdraw capacity. This issue is already addressed by the Good Faith bidding rule change which becomes effective 1 July 2016. They also claim that it inhibits some participants, presumably demand side, from being active in the market. We note that within Tasmania we have significant demand side which is price responsive so there does not appear to be a systemic issue.

Such a major change as Sun Metals propose will also inevitably lead to unforeseen consequences. These consequences always exist when a complex system is changed but it is almost impossible to quantify them due to their nature.

Given the lack of materiality of the problem, AEMC should not explore other solutions (preferable rule proposals) until they have identified a material issue.

## **2 Changes to good faith bidding**

Hydro Tasmania notes that Sun Metals contends “recent incidences of strategic late bidding by generators and manipulation of the market by withdrawing Queensland generation is a market distortions, which is then accentuated by the current market structure of 5 minute dispatch and the 30 minute trading”. Hydro Tasmania notes that since the Sun Metals Rule change proposal was submitted, the AEMC has examined the issues of late rebidding through the Bidding in Good Faith Rule process. The AEMC has made a determination which will commence on 1 July 2016. It would be very poor regulatory practice to assume that the changes to Good Faith Bidding will not fix the problem. AEMC need to attach no weight to this claimed advantage by the proponent.

Sun Metals notes that the mismatch between dispatch and settlement accentuates strategic late rebidding. Sun Metals argue that moving to a 5 minute settlement would help to remove the financial advantage of strategic late rebidding. Hydro Tasmania does not believe that aligning dispatch and settlement would lead to more efficient outcomes. In contrast, implementing a five minute settlement could lead a greater opportunity for strategic rebidding. In a five minute settlement, every interval is the last interval (unlike current arrangements whereby only the last five minutes interval of a trading interval is the last of the settlement)

## **3 SCADA/settlement issues**

The other key question is the cost of changing to another solution from the status quo. From the consultation paper there appear to be significant metering costs and an additional settlements revenue auction which will also add costs and complexity to both AEMO and all participants. Sun Metals’ compromise proposal is to use existing energy metering data profiled by SCADA data to avoid metering replacement costs. This will result in considerable complexities and inconsistencies as different data types need to be combined.

The change of the (final) metering data period from 30 minutes to 5 minutes would require changes to the NEM metering file structures, in-house IT systems and result in a loss of backward data compatibility. Off market settlements with other parties involving a mix of (5 minute or 30 minute) metering data periods would also introduce additional complexity and inconvenience.

## **4 Contract liquidity reduced**

Given the optionality for some parties to settle on 30 minutes and others will settle on 5 minutes, it is likely that financial contracts will be offered for both periods. This must inevitably lead to lower liquidity than having a single settlement time. This could be eliminated by forcing all participants to settle on 5 minutes but then the costs of implementation will increase for some market customers.

## Summary

The proponents have failed to demonstrate that the issue is a material one. There are some well-defined implementation costs for AEMO and many participants. Hydro Tasmania is opposed to the proposed rule or a preferable rule.

We also believe that the timing of such a major change is poor. The NEM is undergoing a transformative change and distracting industry by implementing this major change will take the focus away from the more transformational change which is needed.

Please contact the undersigned if you need any additional information on 0418136493.

Yours sincerely,

A handwritten signature in black ink that reads "D. Bowker." with a horizontal line underneath the name.

David Bowker  
Regulatory Manager