

Session 4: AEMC position on costs and transition

Public forum: Five minute settlement



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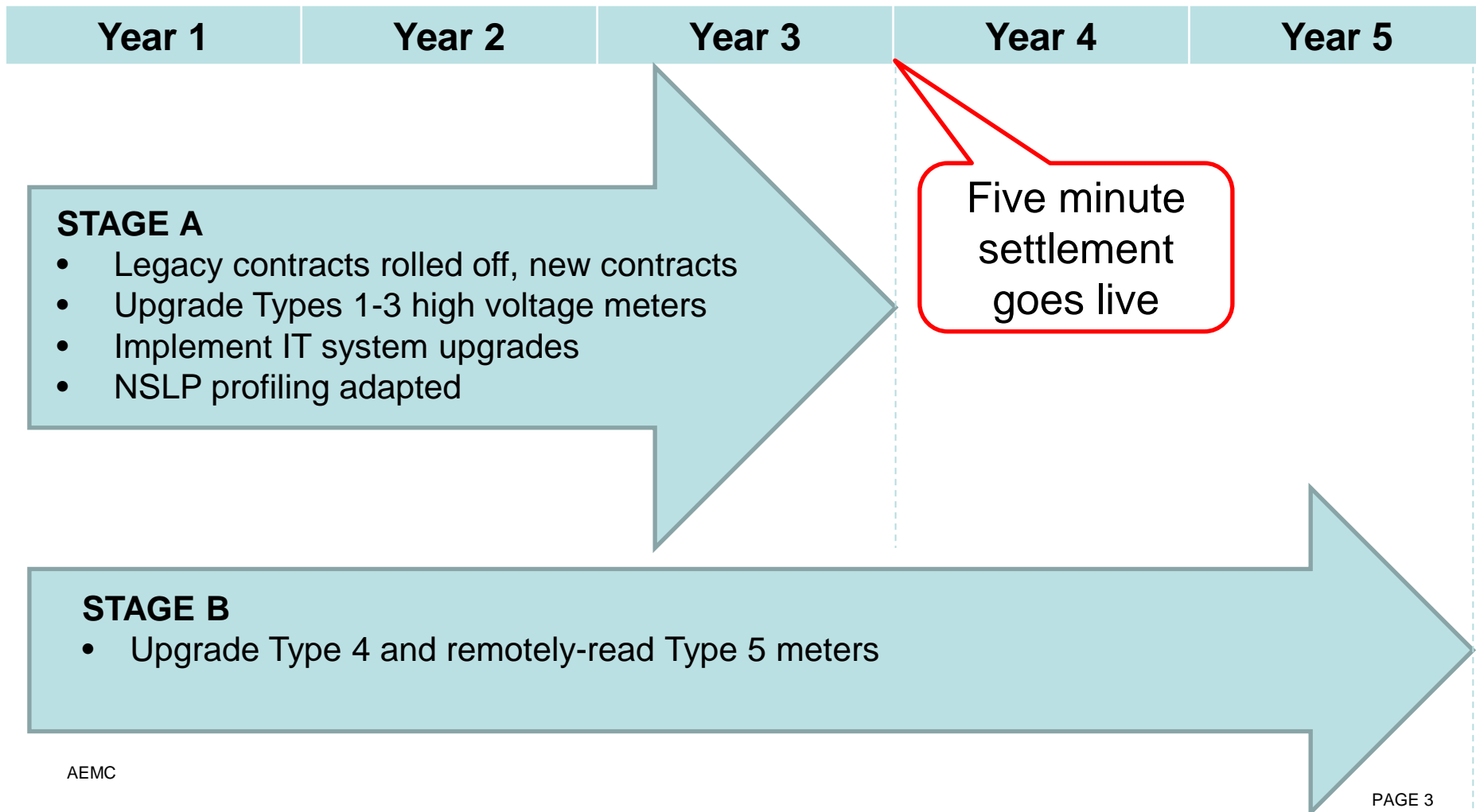
Costs and transition: Overview

For the introduction of five minute settlement to be in the long term interests of consumers, the AEMC must expect the benefits of the proposed change to exceed the costs.

Given the preferred design choices discussed earlier, this session explores the:

- costs associated with introducing five minute settlement as it relates to:
 1. contracting
 2. metering
 3. IT systems
- potential for costs and risks of implementation to be reduced or mitigated through the use of a transition period.

Proposed staged transition



Costs and transition: Contracting

- In session 2 we discussed the critical role of contracts
- Moving to five minute settlement would disrupt contract market operations, creating two types of cost:
 - **one-off costs** for renegotiation or replacement of existing contracts that endure beyond the implementation date
 - **potential ongoing costs** from the expected initial immediate reduction in the supply of cap contracts

Costs and transition: Metering

- Metering and data handling technologies are now capable of five minute settlement.
- Implementing five minute settlement will involve changes to potentially millions of meters so that they can provide five minute resolution data:
 - some can be updated remotely
 - older meters would need replacement
- All remotely-read interval meters that provide settlement data would need to be capable of providing five minute resolution data
- Existing Type 6 accumulation meters (used mainly by residential and small business consumers) would remain unchanged as the NSLP data profiling approach could be adapted to five minute settlement.

Costs and transition: Metering

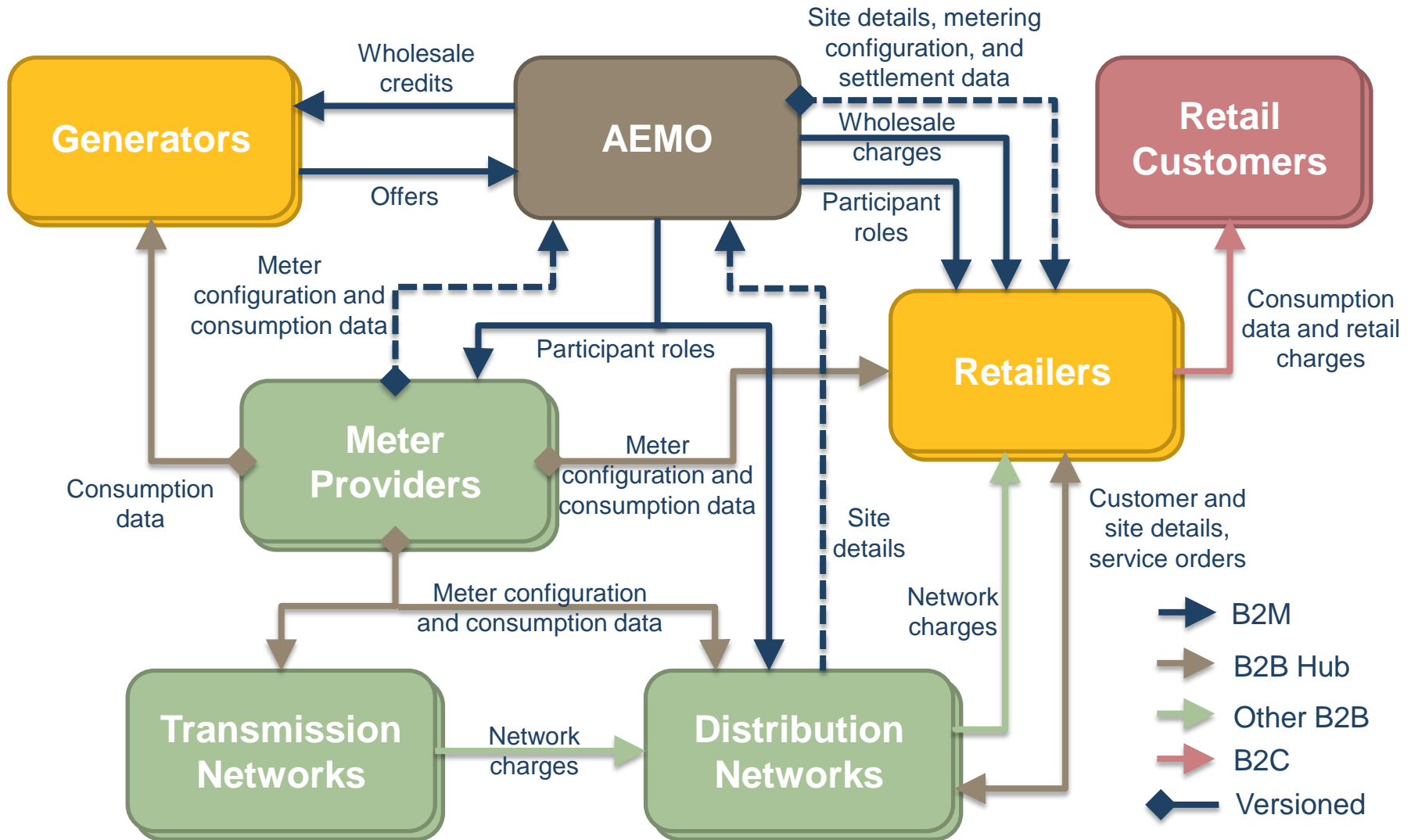
- As discussed in session 3, a transition period consistent with inspection and testing requirements may mitigate the cost of upgrading relevant meters.

Metering installation	Maximum time between tests and inspections
Type 1	2.5 years
Type 2	1 (or 2.5 years if check metering installed)
Type 3	2 - 5 years depending on annual energy transferred
Type 4	5 years
Type 5	5 years

Costs and transition: IT systems

- Moving to a standard of five minute resolution data will require IT system and process changes for most market participants.
- The changes mostly relate to system upgrades to handle five minute resolution metering data, for example:
 - MDP systems for collecting, cleaning and storing metering data
 - retailer systems for wholesale market settlement and billing of customers
- IT system upgrade costs are anticipated to be large one-off costs
- An appropriate transition timeframe may allow for these costs to be reduced e.g. if changes were incorporated in to a wider IT system upgrade.

ELECTRICITY MARKET INFORMATION FLOWS



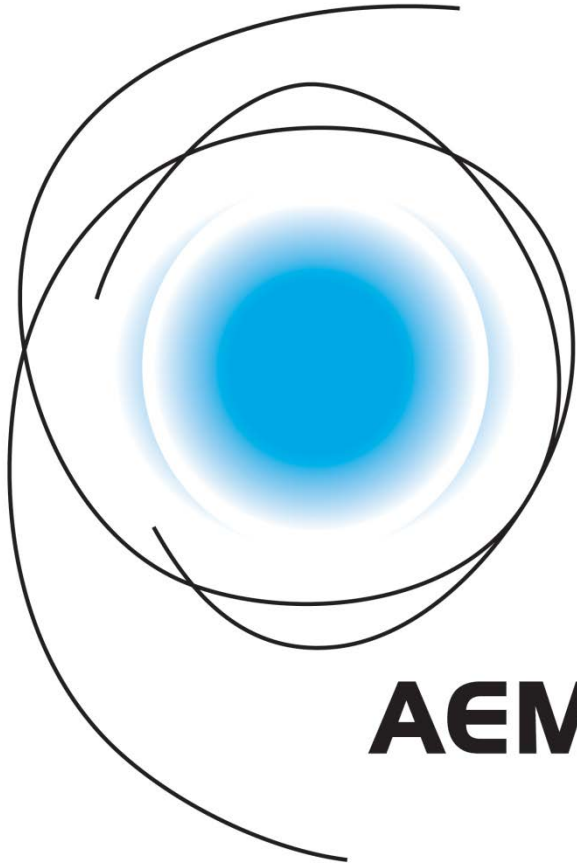
Costs and transition: Rationale for a transition period

- Selecting an optimal transition period involves identifying a timeframe that is short enough to capture the expected benefits of moving to five minute settlement, while reducing the associated costs and risks.

Costs and transition: Summary

The AEMC is seeking stakeholder feedback on:

- the costs and benefits of its proposed implementation, especially in relation to:
 1. contracting (one-off and ongoing costs)
 2. metering
 3. IT systems
- length of the transition period



AEMC