

9 April 2020

Mr John Pierce
Chairman, Australian Energy Market Commission

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By electronic submission

Dear Mr Pierce

Rule change request – Delay Start Date of Five Minute Settlement and Global Settlement

AEMO submits the attached Rule change proposal under section 91 of the National Electricity Law, with a request that the AEMC consider it as an urgent rule under section 96.

COVID-19 threatens to materially impede the safety, security and reliability of the power system by restricting the movement of people to attend work and the availability of healthy people to perform key tasks. The on-going pandemic also threatens the financial resilience of the energy industry. An expedited Rule process would enable the entire energy industry to redirect potentially scarce resources as soon as possible to meet core energy supply responsibilities and consumer expectations.

The attached Rule change request proposes to:

- delay the commencement date for Five Minute Settlement (5MS) by one year, with a corresponding delay for the commencement of Global Settlement (GS). The proposed commencement date for 5MS is 1 July 2022.
- The proposed “soft” start date for GS is 1 July 2022, with a hard start approximately 7 months thereafter i.e. 5 February 2023. This would maintain the same policy logic of staggering GS implementation to reduce the combined financial impact of both 5MS and GS.

Any questions on this Rule change request should be directed to Kevin Ly, Group Manager - Regulation on kevin.ly@aemo.com.au.

Yours sincerely



Peter Geers
Chief Strategy and Markets Officer

Attachment: Rule change proposal

ELECTRICITY RULE CHANGE PROPOSAL

DELAY START DATE OF FIVE MINUTE SETTLEMENT AND
GLOBAL SETTLEMENT

April 2020





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1. SUMMARY

AEMO is requesting a rule to delay the commencement date for Five Minute Settlement (5MS) by one year, with a corresponding delay for the commencement of Global Settlement (GS). The proposed commencement date for 5MS is 1 July 2022.

The proposed "soft" start date for GS is 1 July 2022, with a hard start approximately 7 months thereafter ie. 5 February 2023. This would maintain the same policy logic of staggering GS implementation to reduce the combined financial impact of both 5MS and GS.

2. DESCRIPTION OF THE RULE

On 28 November 2017, the AEMC made a final rule to change the settlement period for the electricity spot price from 30 minutes to five minutes, starting in 1 July 2021. AEMO proposes that the commencement of 5MS be delayed by 12 months with the new commencement date being 1 July 2022.

The duration of delay of 12 months is proposed due to the inherent uncertainty around the severity and impact of COVID-19. Even after social distancing restrictions are removed, it is anticipated that there would be considerable lag time for normal business functions and economic activity to return to "normal". It is acknowledged that the delay of 12 months is subjective but is considered a reasonable period for businesses and consumers to adjust their activities in a post pandemic environment.

The delay in 5MS compared to deferring other reform initiatives is on the basis that deferral would not compromise safety, system security and reliability. Delay in 5MS would free up both human and financial resources to deliver core business functions in a COVID-19 constrained environment.

The 5MS rule is applied to metering installations in a transitional manner, with 5-minute interval data for the majority of type 4 and type 4A meters to be provided by 1 December 2022. AEMO has not proposed any change to that date, but it may be a relevant question for the AEMC to consider with relevant industry Participants.

On 6 December 2018, the AEMC made a final rule that requires a move to a global settlement framework for the demand side of the wholesale electricity market. The change to global settlement will treat all retailers equally by allocating a share of "unaccounted for energy" (UFE) to all retailers in a distribution area. It will also enable AEMO to fully reconcile the market.

In making the GS rule, the AEMC noted that most retailers will be facing charges for UFE for the first time on the commencement of the rule. The AEMC therefore supported a 'soft start', allowing for UFE to be understood and potentially reduced, before it is allocated financially. Hence the global settlements framework has a "soft" start date of 1 July 2021 and fully commences on 6 February 2022.

AEMO proposes to maintain the same policy logic of staggering GS implementation to reduce the combined financial impact of both 5MS and GS, with the soft start date for GS to be changed to 1 July 2022 and the hard start date approximately 7 months thereafter ie. 5 February 2023.

As a transitional matter, AEMO proposes that any changes that are required to already-determined procedures for the sole purpose of deferring the effective date of 5MS or GS should not require consultation.

2.1 Urgent Rule Change Request

AEMO requests the AEMC to consider the proposed rule as an expedited "urgent rule". AEMO believes this expedited rule change process is justified since, if not made as a matter of urgency, the result may be



imminent prejudice or threat to the effective operation and administration of the wholesale electricity market or the safety, security or reliability of the interconnected electricity system.

COVID-19 threatens to materially impede the safety, security and reliability of the power system by restricting the movement of people to attend work, the availability of healthy people to perform tasks and the financial resilience of the energy industry. An expedited Rule process compared to the standard rule change process would provide a higher level of certainty for the entire energy industry to divert scarce resources to meet core energy supply responsibilities and consumer expectations.

3. STATEMENT OF ISSUE

3.1 Issues with the current Rule

Australia is facing unprecedented challenges as a result of the COVID-19 pandemic. These challenges extend to public health, continuity of services, and the broader ongoing economic impacts. The energy industry has been working to prepare and respond to COVID-19, recognising that energy services are critical to the ongoing resilience of the economy.

The scope of the disruptions posed by COVID-19 to the energy industry are complex and broadly relate to:

- the ability of people to attend their places of employment;
- the ability of people to work (either remotely or at their usual workplace);
- the availability of healthy people to perform routine or specialist tasks; and
- the ability of energy industry Participants to continue to meet financial commitments as a result of significant revenue uncertainty.

The industry is committed to the ongoing supply of energy as an essential service, and support for customers, as they deal with the broader economic and social impacts of COVID-19.

Whilst energy businesses are meeting these core obligations now, there may be challenges in the coming months that are not presently anticipated, or that may emerge depending on the spread of the virus and its rapidly changing nature. This will further reduce the capacity of those businesses to undertake other activities beyond their core supply responsibilities.

The energy industry is therefore concerned that a number of the reforms which are scheduled for implementation over the coming months will be dependent upon allocating the limited staff resources remaining, and this will in turn put pressure on companies' ability to provide a reliable supply of energy and related customer services.

There is also the additional industry concern that work needed to ensure the summer readiness of the National Electricity Market generation fleet may be compromised over the coming months.

The successful implementation of 5MS is an industry wide responsibility. It requires significant effort from network service providers, generators, retailers, meter providers, metering data providers and AEMO, who must all complete their readiness activities within a common timeframe. A deferral of 5MS commencement is likely to assist the energy industry's ability to maintain focus on health, safety, energy supply, and customer wellbeing. Should the AEMC conclude that deferral is appropriate, it is important to reflect this decision in the rules at the earliest possible opportunity, to avoid the expenditure of costs and resources on 5MS tasks at a time when the impacts of COVID-19 are ongoing and remain uncertain.



3.2 Potential Impact to Other Rules

It is acknowledged that a delay to 5MS will impact the commencement of other Rules. Specifically, as proposed in this request, AEMO believes the GS relevant dates should be adjusted to “soft” start date of 1 July 2022, and a hard start date approximately 7 months thereafter ie. 5 February 2023. This would maintain the same policy logic of staggering GS implementation to reduce the combined financial impact of both 5MS and GS.

AEMO would like to work with the AEMC to identify flow on effects to other Rules made with a commencement date after 5MS.

4. PROPOSED RULE

4.1 How the proposal will address the issues

This proposed rule would allow energy industry participants to focus on ongoing supply of energy as an essential service, and support for customers, as they deal with the broader economic and social impacts of COVID-19. In addition, if commencement of 5MS and GS is delayed, significant industry implementation costs would be deferred and provide a financial buffer to cater for the uncertainties posed by COVID-19.

4.2 How the Proposed Rule Contributes to the National Electricity Objective (NEO)

The NEO is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to -

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system.

The proposed Rule still recognises that 5MS provides alignment of dispatch with settlement and therefore provides incentives for more efficient bidding, operational decisions and investment. Over time, this flows through to lower wholesale costs, which should lead to lower electricity prices than in a market with 30-minute settlement. The COVID-19 pandemic is reducing economic activity and prioritising resources into healthcare and social services. Under these circumstances the immediate benefits of 5MS in its first year of operation, in terms of allocation of and investment in resources, may be lower than expected given that activity seeking to capitalise on 5MS may be deferred.

The proposed Rule recognises that 5MS and GS are being implemented by AEMO are a package. Hence a delay in 5MS requires a consequential delay in GS.

The proposed Rule prioritises the short-term safety, reliability and security of supply of electricity and the national electricity system, and the financial resilience of the energy industry due to the constraints and risks posed by COVID-19 over the potential for immediate economic benefits of 5MS.

5. EXPECTED BENEFITS AND COSTS OF THE PROPOSED RULE

It is acknowledged that a delay in the commencement date for 5MS and GS may impact industry Participants differently. Through the Rule change process, the AEMC would be able to take a balanced approach in assessing the implications of the delay.



AEMO expects the potential benefits of the proposed rule are:

- It would allow energy industry Participants to focus on ongoing supply of energy as an essential service.
- Energy resources would be focused on support for customers, as they deal with the broader economic and social impacts of COVID-19.
- Potential less reliance on specialist project external resources, reducing 5MS Project cost pressures for businesses that have indicated they are operating in markets where resource constraints exist and upwards pressures on resource costs have been observed
- More opportunity for participants to negotiate with their 5MS vendors in a less time constrained environment
- Significant industry implementation costs would be deferred and provide a financial buffer to cater for the uncertainties posed by COVID-19.

AEMO expects the potential costs of the proposed rule are:

- Potential for some implementation cost increase, associated with either maintaining some level of project continuity or standing-down and re-initialising the implementation of 5MS and GS.
- Deferral of the potential immediate economic benefits of 5MS and GS, which may have reduced in the first instance by the effect of COVID-19 pandemic on the economy.

In summary, the proposed Rule would reduce implementation risk and costs for 5MS and GS, as participants respond to the potential disruptions caused by COVID-19. Scarce resources may then be reallocated to core business functions in a constrained environment. There are potential expected costs, but it is expected that the net impact of the proposed Rule would be significantly positive.