

Australian Energy Market Commission

PO Box A2449

Sydney South

NSW 1235

11 June 2020

Dear Commissioners

Submission on ERC0298 – Delayed implementation of five minute and global settlement

Thank you for the opportunity to offer my views on the potential delay to five-minute settlement (5MS) and global settlement (GS). Overall, I oppose any delay to implementing 5MS for the reasons outlined below.

Do we need 5MS? Yes.

- As the AEMC identified in its original 5MS determination, 5MS will:
 - Support the electricity system by providing energy when it needs it, not up to 25 minutes later which can be the case under 30-minute settlement.
 - Enable efficient investment in capacity and demand response technologies - these are predominantly zero-emissions or low-emissions technologies.
 - Provide efficient bidding incentives by removing generators' ability to take advantage of the 30-minute market distortion and consequently raise prices for consumers.¹
- In this way, 5MS is a foundational reform that supports Australia's transition to a zero-emissions electricity sector as well as providing consumers large and small with lower prices in the longer term. For example, AEMC Chair John Pierce recently indicated that 5MS is one of "the most important energy reforms underway to deliver a cheaper, fairer, lower emissions power sector for families and businesses."²
- A point not covered yet by the AEMC is that an early transition to a low-emissions power sector is critical to Australia reducing its emissions in-line with its Paris climate goals by:
 - Immediately accelerating the deployment of mature and demonstrated zero-emissions or best available technologies. The figure below shows that these types of technologies are concentrated in the electricity sector, and that other sectors are dependent on electrification in order to reduce emissions.

¹ AEMC, Five minute settlement final determination, November 2017, p ii.

² AEMC media release, AEMC investigates impact of five-minute settlement start date delay, May 2020. See: <https://www.aemc.gov.au/news-centre/media-releases/aemc-investigates-impact-five-minute-settlement-start-date-delay>

- Rapidly developing and commercialising emerging zero-emissions technologies in harder to abate sectors.³

Figure: Summary of key zero-emissions solutions⁴

DEMONSTRATED + MATURE SOLUTIONS		100% renewables, storage (incl. batteries), demand management
		Deep energy efficiency, electrification
		Electric and fuel-cell vehicles for light road transport
		Energy efficiency, circular economy, proven electrification, bioenergy and bio-feedstocks, industrial CCS
		Sustainable agriculture practices, plant-based substitutes, fertiliser management, carbon forestry
EMERGING SOLUTIONS		Biofuels, synfuels, electrification, ammonia or hydrogen for other transport
		Material substitution, high grade heat electrification, solar thermal, hydrogen
		Lab food, enteric fermentation treatments (such as livestock vaccines)

When do we need it? From 1 July 2021 as originally planned.

Delaying SMS will likely:

- Defer investment in low- or zero-emissions generation and demand response
- Consequently defer investment in low-carbon technologies in other sectors (see figure above)
- Prolong output from polluting fossil fuel fired power plants, consequently leading to greater carbon emissions than otherwise.

The current and future costs to the Australian economy of climate change impacts are unfathomable.⁵ It is therefore in the long term interests of energy consumers (and taxpayers who bear the brunt of costs of extreme weather events and longer term climate impacts) for the AEMC to ensure cost-effective reforms that also support emissions reductions in the electricity sector. As referenced above, SMS ticks both boxes and should proceed on its current implementation timeline.

Further, the OECD and IEA have recommended that governments use Covid-19 recovery efforts as an opportunity to phase out support for fossil fuels.⁶ SMS will help with this effort in the NEM. The

³ ClimateWorks Australia, *Decarbonisation Futures: Solutions, actions and benchmarks for a net zero emissions Australia*, March 2020, p8.

⁴ Ibid.

⁵ Examples of climate change costs are set out in the appendix.

⁶ OECD and IEA, media release, *Governments should use Covid-19 recovery efforts as an opportunity to phase out support for fossil fuels*, 5 June 2020. See: <https://www.oecd.org/newsroom/governments-should-use-covid-19-recovery-efforts-as-an-opportunity-to-phase-out-support-for-fossil-fuels-say-oecd-and-iea.htm>

Clean Energy Council have also confirmed that such a “clean recovery” would include the following benefits for Australia:

- Drive down power prices
- Create over 50,000 new direct jobs, many more indirect jobs and an additional 4000 ongoing jobs
- Inject \$50 billion worth of investment into the Australian economy.⁷

5MS is a key Australian reform that is needed to support the Covid-19 pandemic economic recovery, not be delayed in the name of it.

What is the impact of Covid-19 on energy businesses? It’s manageable and not a reason to delay 5MS.

- 85% of respondents to AEMO’s latest 5MS readiness reporting said that the residual impact of Covid-19 on their business was low or medium.⁸
- Federal and state government Covid-19 support for businesses and individuals appears to be working in the electricity sector because according to the AER:
 - “Retailers have not reported any disconnections for non-payment since 30 March [2020].
 - The number of customers on payment plans has gradually increased a small amount compared to the baseline, however the increase is not as significant as expected.
 - The proportion of retailers’ customer base that made calls to an operator was high during April. As at 18 May [2020], the average proportion has returned to lower levels and is approaching, although still higher than, last year’s annual average.
 - The number of customers on hardship programs and average hardship debt have both remained steady (contrary to expectations).⁹

Are there other options to deferring 5MS industry costs? Yes.

Other options include:

- **Businesses reducing costs in other parts of their operations.** There is no reason why the 5MS reform should be specifically targeted as a cost-saving or cost deferral measure. Its benefits and impacts vary from business to business. Therefore each business should be identifying other ways to adapt to Covid-19 (if necessary).
- **Businesses dipping into their “rainy day” funds, making use of their contractual positions or insurance to mitigate any Covid-19 impacts.** The rainy day has arrived. Further, it is businesses’ job to be prepared by having good governance and risk management in place thereby providing mitigations and contingencies for significant events such as the Covid-19 pandemic.

⁷ Clean Energy Council, see: <https://www.cleanenergycouncil.org.au/advocacy-initiatives/a-clean-recovery>

⁸ AEMO, 5MS Market Readiness Report – Round 2, May 2020, p8. See: <https://aemo.com.au/initiatives/major-programs/nem-five-minute-settlement-program-and-global-settlement/readiness-workstream/readiness-reporting>

⁹ AER, COVID-19 Retail Market Data Dashboard, 18 May 2020, pp 1-2.

- **Changing the extent of 5MS obligations.** AEMO's *5MS Industry Readiness Contingency Plan*¹⁰ shows that the basic requirements for an elementary 5MS boil down to:
 1. Essential meters producing and communicating 5-minute metering data. These are approximately 2,000 transmission connected types 1-4 meters and distribution to distribution cross-boundary types 1-4 meters. In most cases, these more sophisticated meters will only require remote reconfiguration, keeping costs to a minimum. Further, according to AEMO's latest 5MS readiness reporting,¹¹ all relevant Metering Providers and Metering Data Providers are on track for meeting their current obligations for these essential meters.
 2. AEMO having market systems (bidding, metering, settlements) to support 5MS. AEMO has indicated in its rule change proposal that it already intends to keep to the original 5MS timeline.

If the AEMC believes there is a credible risk of financial contagion in the NEM if 5MS continues in its current form, then it should seriously consider all options, including adjusting 5MS obligations while maintaining the benefits of 5MS for consumers.

What about industry capability?

5MS is primarily an IT-based change, impacting businesses differently. IT impacts vary from none to major system replacements. If anything, the Covid-19 impacts should increase the pool of IT resourcing available because whole industries (e.g. aviation, tourism, higher education etc) have been largely shut down or significantly affected. Other essential services have been able to continue operating and implementing change during the Covid-19 period due to the ability of office based workers to work from home.

Summary

It is in the long-term interests of consumers for 5MS to continue on its current implementation path for the reasons discussed above.

Yours sincerely,

Fiona Mackay

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.

¹⁰ AEMO, 5MS and GS Industry Readiness Contingency Plan, June 2020, Chapter 3. See: <https://aemo.com.au/initiatives/major-programs/nem-five-minute-settlement-program-and-global-settlement/readiness-workstream/key-readiness-documents>

¹¹ AEMO, 5MS Market Readiness Report – Round 2, May 2020.

APPENDIX: EXAMPLES OF CLIMATE CHANGE COSTS

Climate change costs will and do arise as a result of: floods and mudslides, bush fires, drought, storm damage, ocean acidification, infrastructure loss, political instability, climate refugees, species extinction, water scarcity, ecosystem loss, infectious diseases, sea level rise and many more impacts.

Just two examples of climate change-related costs already impacting Australia include:

- 2019-2020 bushfires:
 - 33 people killed
 - \$2 billion for treating patients with heart and lung problems and asthma brought on by exposure to bushfire smoke (445 died from exposure to bushfire smoke)
 - \$2.26 billion of insurance claims as a result of property loss¹²
- Droughts:
 - The federal government has spent \$8 billion on direct drought assistance to farmers since the turn of the century¹³

¹² Sydney Morning Herald, Editorial, *Experts recount cost of bushfires and government must listen*, 28 May 2020. See: <https://www.smh.com.au/politics/federal/experts-recount-cost-of-bushfires-and-government-must-listen-20200528-p54xfd.html#:~:text=The%20federal%20inquiry%20is%20tallying,a%20result%20of%20property%20loss.>

¹³ Sydney Morning Herald, *The cost of drought - and it's just going to grow*, 3 November 2019. See: <https://www.smh.com.au/politics/federal/the-cost-of-drought-and-it-s-just-going-to-grow-20191102-p536rd.html>