



Delayed implementation of five minute and global settlement

Stakeholder submissions invited on new rule change request

The Australian Energy Market Commission (AEMC) has published a consultation paper on a rule change proposal from the Australian Energy Market Operator (AEMO) that seeks to delay the commencement of the Five minute settlement (5MS) and Global settlement and market reconciliation (GS) rules by 12 months.

The rule change request

Given the impact COVID-19 pandemic is having on the economy and the energy industry, and the considerable, industry-wide implementation effort of the 5MS and GS rules, AEMO has submitted the rule change request seeking to delay the start date of the 5MS and GS rules by 12 months. AEMO has proposed the delay will allow industry participants to focus on 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.

Issues for consultation

The consultation paper identifies the key issues for stakeholders to provide back on to the Commission, including:

- If there were to be a delay, is 12 months the most optimal period of delay, or is there another length of delay that is more appropriate?
- How has COVID-19 impacted participants financial health, and what would be the impact of a delay on participants' cash flows and capacity?
- How would a delay impact the contract market and participant risk management?
- What would be the impact of delaying the benefits of 5MS and GS by 12 months?
- Are there any implications for other parts of the National Electricity Rules or procedures and guidelines managed by AEMO/the Australian Energy Regulator/Information Exchange Committee?

The Commission requests that where possible, evidence should be provided to support stakeholder submissions. Any confidential cost information can be treated as confidential and redacted from submissions published on the AEMC's website. The Commission also welcomes early submissions where possible.

Key dates

Key dates for stakeholders in this process are as follows:

- Commencement of the rule change process: 14 May 2020
- Objections to the Commission's decision that the rule change request is a request for an urgent rule (and be subject to the expedited process): 28 May 2020
- Submissions to the consultation paper to be received by: 11 June 2020
- Final determination and final rule to be published under an expedited process by: 9 July 2020.

Treatment as an urgent rule change request

AEMO has requested that the rule change request be subject to the expedited rule making process on the basis that it is an 'urgent rule'. AEMO states that COVID-19 could threaten the financial resilience of the energy industry, among other things.

The Commission considers that this rule change request is a request for an urgent rule, and therefore has decided to use the expedited rule change process, provided that it does not receive any valid requests not to use the expedited process by 28 May 2020.

Background on five minute settlement rule and global settlement rule

On 28 November 2017, the Commission made a rule to align operational dispatch and financial settlement at five minutes. The five minute settlement rule reduces the time interval for financial settlement in the NEM from 30 minutes to five minutes. The five minute settlement rule allowed for an implementation period of 3 years and 7 months, such that it would commence on 1 July 2021. The benefits of five minute settlement include improved:

- price signals for more efficient generation and use of electricity
- price signals for more efficient investment in capacity and demand response technologies to balance supply and demand
- bidding incentives.

On 6 December 2018, the Commission made a rule to introduce a 'global settlement' framework for settlement of the demand side of the wholesale electricity market. The global settlement rule moves away from the current 'settlement by difference' approach. The global settlement rule is due to commence on 6 February 2022. The benefits of the global settlements rule include:

- improved transparency, leading to fewer settlement disputes between retailers and lower levels of unaccounted for energy over time
- competition on equal terms between the local retailer and other retailers
- improved risk allocation, so that risks are allocated to those parties that are best placed to manage them.

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