The Australia Institute
Research that matters.

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John Pierce AO
Chairman
Australian Energy Market Commission

By email.

Dear Mr Pierce

Delayed implementation of five minute and global settlement (ERC0298)

We appreciate the opportunity to make a submission to this rule change, which seeks to delay the implementation of five minute settlement (5MS) and global settlement (GS) by 12 months, from July 2021 to July 2022.

The consultation paper for the rule change to delay states the Commission's view as follows:

> *'the economic impact of COVID-19 threatens the financial viability of many participants and potentially in turn the financial resilience of the energy industry…and there is evidence that this impact could be reduced if the implementation of five minute settlement and global settlement is deferred as soon as possible.'*[1]

The first time this delay was proposed was apparently a letter written by the Australian Energy Council (AEC) to Federal Energy Minister Angus Taylor on 19 March 2020. We note that this letter has not been made public nor have the AEC or other market participants released any financial data that shows the implementation of 5MS in July 2021 threatens the financial viability of the energy industry.

The Commission has gone through a lengthy rule change process which determined that implementing 5MS in July 2021 was in the long-term interests of consumers and supports the National Electricity Objective. The implementation date was a critical aspect of the determination.

If the Commission now seeks to revisit a key element of its original 5MS determination, on the basis of the financial viability of energy industry participants, then it will need them to provide specific financial information.

[1] Australian Energy Market Commission (2020) *Delayed implementation of five minute and global settlement - Consultation paper*, p.19

The Commission does not have the power to compel such production of information and none has been volunteered. What is publicly available (at 31 May 2020) is AEC members Origin Energy and AGL had not issued ASX market notices indicating financial distress as a result of regulatory compliance during COVID-19.[2]

The case for maintaining the reform timetable

The Commission maintains that COVID-19 has had major economic and social impacts. These new stresses on consumers make the benefits of reform even more, not less important than when the 5MS rule change was made in 2017.

The Commission's 5MS determination found the reform would have a number of key benefits including:

1. Improve price signals for more efficient generation and use of electricity;
2. Improve price signals for more efficient investment in capacity including storage and demand response resources to balance supply and demand – promoting an efficient mix of generation assets and demand side technologies, leading to lower supply costs; and
3. Improve bidding incentives by helping to address price distortions across the NEM which would only worsen without a shift to 5MS.

The NEM faces major reliability challenges as coal-fired power stations retire. The Liddell power station is expected to retire in April 2023 and other coal-fired retirements will follow. It is critical that appropriate price signals are in place for sufficient time, in order to stimulate investment in an efficient portfolio of generation, storage and demand-side measures to replace them.

The investment case for batteries has already been adversely affected by the implementation of mandatory primary frequency response.[3] Delay of 5MS will further erode the battery value stack and make investment less likely. This will harm competition in energy and FCAS markets.

There is also a risk that delay of 5MS would disproportionately benefit the three 'gentailers' that between them cover a majority of the both generation and retail markets in the NEM, as they own the generation assets that benefit from the price distortions caused by the current bidding incentives.

By contrast, small, innovative retailers and aggregators are building the business models to enable demand side technologies to reduce energy cost for consumers under 5MS. A

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[2] AGL's ASX market notice *Presentation to Macquarie Australia Conference 2020* (5 May 2020) forecasts profit after tax of $780 million to $860 million for financial year 2020-2021 (p.6) and Origin Energy's ASX notice *March Quarterly* Report (30 April 2020) neither reported nor predicted financial distress.

[3] Mazengarb (2020) *AEMC makes frequency response mandatory for all generators, renewables to be hit with costs*, https://reneweconomy.com.au/aemc-makes-frequency-response-mandatory-for-all-generators-renewables-to-be-hit-with-costs-13814/; Sondhi (2019) *Primary Frequency Response Consultation Paper Rule Change Submission ERC0274 - Fluence Energy*, p.2

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delay to 5MS will disadvantage this sector and ultimately the development of a two-sided market based around distributed energy resources.

We are also concerned by the wider impact of this rule change.

Delay to 5MS could have a knock-on effect on other reform processes including important AEMC rules and Energy Security Board reviews leading up to the post 2025 market redesign project.

We note that the AEC requested changes to the regulatory timetable beyond 5MS, including other reforms over the next 5 years.[4] On 19 May 2020, the market bodies released advice to COAG Energy Council which reclassified 13 AEMC and 3 AER projects as "progress" rather than "progress as planned"', which suggests that at least another 16 rules may be delayed.[5]

Market bodies and governments should be exploring how to open up the NEM to more competition, to stimulate private sector investment during the recession induced by the COVID-19 pandemic. This would benefit the National Energy Objective and, with more NEM investment, assist with job creation.

We also question whether the prospect of financial contagion across the energy sector is an appropriate matter for the rule-making powers of the Commission or rather an issue falling under the jurisdiction of general economic regulators and the Federal Government.

We are happy to provide further detail if required.

Regards

Mike Cannon-Brookes Co-CEO Atlassian	Simon Hackett Renewable Energy Entrepreneur	Dan Adams Co-CEO Amber Electric
Ben Oquist ED The Australia Institute	Dan Cass Energy regulatory lead The Australia Institute	Emma Fagan Tesla Energy Policy Manager

[4] Barnes (2020) *COVID-19 brings reform challenges*, https://www.energycouncil.com.au/analysis/covid-19-brings-reform-challenges/
[5] (n.d.) *Joint market body prioritisation framework*, p.5