Tasmanian Council of Social Service Inc.

Submission to AEMC

Five Minute Settlement Rule Change.

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About TasCOSS

TasCOSS is the peak body for the community services sector in Tasmania. Our membership includes individuals and organisations active in the provision of community services to low income, vulnerable and disadvantaged Tasmanians. TasCOSS represents the interests of its members and their clients to government, regulators, the media and the public. Through our advocacy and policy development, we draw attention to the causes of poverty and disadvantage, and promote the adoption of effective solutions to address these issues.

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The views expressed in this document do not necessarily reflect the views of Energy Consumers Australia.

The Tasmanian Council of Social Service (TasCOSS) welcomes the opportunity to comment on the Five Minute Settlement Rule Change consultation ERC0201.

TasCOSS is the peak body for the community services sector in Tasmania. TasCOSS advocates for the interests of the sector and of the vulnerable and disadvantaged Tasmanians that the sector supports. After housing costs, energy costs are the main cost-of-living challenge facing low income Tasmanian households, so energy is a major focus of TasCOSS concern and advocacy.

Summary

TasCOSS supports the proposed rule change. TasCOSS believes that the proposed move to five minute settlement will make the wholesale market more efficient, and that prices for household consumers are likely to be lower if the wholesale market functions more efficiently. In spite of unavoidable transition costs, a more efficient market will ultimately benefit household consumers, including low income and vulnerable consumers.

Discussion

TasCOSS is not commenting on the discussion questions in the AEMC Five Minute Settlement Directions Paper[1] that require specialist technical and financial expertise. Our comments are limited to the likely impact on consumers, in response to question 11(d).

11 (d) Are there any other practical aspects of implementing five minute settlement that should be considered?

TasCOSS believes that this rule change will benefit household consumers by reducing costs. It will result in a direct reduction in wholesale cost and a reduced risk premium for retailers; it will be an enabler for new and emerging technologies, which will be needed in any case to replace energy generators that are reaching end of life; and the technology to manage the transition already exists.

Aligning the financial market for electricity (which currently settles at 30 minute intervals) with the physical market (which dispatches at five minute intervals) will facilitate an improved price signal, and greater efficiency in the wholesale market. This will reduce the likelihood for wholesale prices to spike. Smoother and lower peaks in the wholesale price will likely lead to lower prices overall. This will reduce the wholesale price component of the bills paid by household consumers.

In addition, smoothing out the peaks in the wholesale price will provide greater certainty for retailers, so their risk premiums will be reduced. TasCOSS would expect this to flow through to lower prices to consumers, particularly in Tasmania where at present there is only one retailer

[1] AEMC, *Five Minute Settlement*, directions paper, 11 April 2017, Sydney.

selling electricity to households (Aurora Energy) whose retail margin is regulated by the Tasmanian Economic Regulator.

The energy market is adapting to new technologies in both generation and IT areas. Aligning both dispatch and settlement to five minute intervals would likely give the right investment signal for new and emerging technologies. TasCOSS hopes that increased investment in these new technologies will bring benefits, including reduced prices, to household consumers through smarter and more efficient production, and through greater system efficiencies.

International experience shows that the technology to manage five minute settlement is available and in use elsewhere.[2] A transition to five minute settlement in Australia's National Electricity Market is timely, as significant planning for and upgrading of energy infrastructure will need to take place in the next 10 years due to many energy plants reaching end of life. As the AEMC Directions Paper states, "In the next decade over 45 per cent of the existing electricity generation plants in the NEM will be at least 40 years old."[3]

TasCOSS acknowledges that transition to five minute settlement will involve some costs. However, we consider that the benefits will outweigh these costs.

During the transition period, TasCOSS would like to see robust oversight measures to ensure that only reasonable and necessary costs are passed on to energy consumers. In particular, excessive legal costs associated with changes to contracts should not be passed through to end-users (especially low income and vulnerable household consumers) if these are incurred because of a lack of foresight on the side of energy companies. It is TasCOSS' view that a rule change to align settlement and dispatch intervals has been reasonably foreseeable for some time. If energy companies and their consultants and lawyers have not made appropriate and timely provisions, the costs of their inadequate planning should not be passed on to consumers who rely on energy as an essential service.

Conclusion

TasCOSS supports a managed transition to **5** minute settlement. A transition period in the range of 3-5 years seems reasonable. It is critical that any additional costs are kept to an absolute minimum and that the introduction of this rule change decreases energy costs for consumers and does not add to them in any material way, even in the short term.

Fairness to consumers and ensuring that any additional cost burdens do not increase energy poverty or disconnection rates are important principles in managing the transition to five minute settlement.

[2] AEMC, *Five Minute Settlement*, directions paper, 11 April 2017, Sydney, p 29.
[3] AEMC, *Five Minute Settlement*, directions paper, 11 April 2017, Sydney, p 32.