

FIVE MINUTE SETTLEMENT – AUCTION PARTICIPATION AGREEMENT CHANGES

DRAFT REPORT AND DETERMINATION

Published: **June 2019**





NOTICE OF SECOND STAGE CONSULTATION – AUCTION PARTICIPATION AGREEMENT

National Electricity Rules – Rule 8.9

Date of Notice: 25 June 2019

This notice informs all Registered Participants and interested parties (Consulted Persons) that AEMO is commencing the second stage of its consultation on the Auction Participation Agreement (APA) as a result of the Five-Minute Settlement (5MS) rule. The APA forms part of the auction rules for settlement residues under the National Electricity Rules (NER).

This consultation is being conducted in accordance with the Rules consultation requirements detailed in rule 8.9 of the NER.

Invitation to make Submissions

AEMO invites written submissions on this Draft Report and Determination (Draft Report).

Please identify any parts of your submission that you wish to remain confidential, and explain why. AEMO may still publish that information if it does not consider it to be confidential, but will consult with you before doing so.

Consulted Persons should note that material identified as confidential may be given less weight in the decision-making process than material that is published.

Closing Date and Time

Submissions in response to this Notice of Second Stage of Rules Consultation should be sent by email to 5MS@aemo.com.au, to reach AEMO by 5.00pm (Melbourne time) on 16 July 2019.

All submissions must be forwarded in electronic format (both pdf and Word). Please send any queries about this consultation to the same email address.

Submissions received after the closing date and time will not be valid, and AEMO is not obliged to consider them. Any late submissions should explain the reason for lateness and the detriment to you if AEMO does not consider your submission.

Publication

All submissions will be published on AEMO's website, other than confidential content.

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EXECUTIVE SUMMARY

The publication of this Draft Report and Determination (Draft Report) commences the second stage of the Rules consultation process conducted by AEMO to consider amendments to the Auction Participation Agreement (APA) under the National Electricity Rules (NER) for the implementation of Five Minute Settlement (5MS) and Global Settlement (GS).

On 22 March 2019, AEMO published the Notice of First Stage Consultation and the Issues Paper for the Policy. AEMO received one submission from Origin Energy agreeing with the proposed changes.

Having considered the submission, AEMO's draft determination is to retain the amendments as proposed in the Issues Paper.

AEMO invites stakeholders to suggest alternative options where they do not agree that AEMO's proposals would achieve the relevant objectives.



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1. STAKEHOLDER CONSULTATION PROCESS

As required by the National Electricity Rules (NER), AEMO is consulting on amendments to the Auction Participation Agreement (APA) in accordance with the Rules consultation process in rule 8.9.

AEMO's indicative timeline for this consultation is outlined below. Future dates may be adjusted depending on the number and complexity of issues raised in submissions.

Deliverable	Indicative date
Notice of first stage consultation and Issues Paper published	22 March 2019
First stage submissions closed	27 May 2019
Draft Report & Notice of second stage consultation published	25 June 2019
Submissions due on Draft Report	16 July 2019
Final Report published	05 August 2019

AEMO has been and intends to continue to consult through the Five Minute Settlement¹ (5MS) program engagement channels.² The relevant engagement channels include:

- Procedures Working group (PWG)
- Systems Working Group (SWG)
- Settlements Focus Group (SFG)

The publication of this Draft Report marks the commencement of the second stage of consultation. Note that there is a glossary of terms used in this Draft Report at Appendix A.

2. BACKGROUND

2.1. NER requirements

Under clause 3.18.3 of the NER, AEMO is responsible for developing and amending the auction rules that set out the procedures and mechanisms for operating settlements residue auctions (SRAs). Clause 3.18.3(d)(1) stipulates that AEMO may amend the auction rules with the approval of the SRC and in accordance with the Rules consultation process outlined in rule 8.9. The APA is Schedule 1 of the auction rules. It documents the agreement between AEMO and eligible market participants concerning the conditions of participation in SRAs, including the terms of settlement residue distribution agreements (SRDAs) for the issue of units subject to each quarterly auction.³

2.2. Context for this consultation

2.2.1. Five-Minute Settlement and Global Settlement

In November 2017, the AEMC made the Five-Minute Settlement (5MS) rule. The rule reduces the trading interval for financial settlement in the National Electricity Market (NEM) from 30 minutes to five minutes, aligning with NEM dispatch.

¹ AEMC. 2017. National Electricity Amendment (Five Minute Settlement) Rule 2017. Available: <https://www.aemc.gov.au/sites/default/files/content/97d09813-a07c-49c3-9c55-288baf8936af/ERC0201-Five-Minute-Settlement-Final-Determination.PDF>

² For details on forums and groups specific to the 5MS program see: <http://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Five-Minute-Settlement>

³ If AEMO allocates settlement residue units to an auction participant in accordance with the auction rules and sends a confirmation to the auction participant, AEMO and the auction participant will have entered into an SRDA for the given quarter for which the auction participant has been allocated units.



The AEMC made the Global Settlement⁴ (GS) rule in December 2018 to introduce a 'global settlement' framework for settlement of the demand side of the wholesale electricity market.

Implementing Five-Minute Settlement

Five minute settlement will commence in the NEM on 1 July 2021. Settlement across the NEM will then be based on five-minute trading interval prices.

5MS will change many NEM processes, including energy and ancillary service bidding, online dispatch, intervention pricing, the calculation of trading amounts, the calculation of the cumulative price threshold, and periodic energy metering.

The final 5MS and GS rules require AEMO to update and publish a number of specified relevant procedures by 1 December 2019, including the Settlement Residue Auction Rules.

Implementing Global Settlement

Implementing global settlement will remove the current 'settlement by differencing' framework that has been in place since the start of NEM.⁵

Under the new GS framework, every retailer will be billed for their customers' loss-adjusted metered electricity in a distribution area and their share of the unaccounted-for energy (UFE) attributable to that area. The final rule requires UFE to be calculated at the transmission connection point level. UFE is then allocated in proportion to each retailer's share of the loss-adjusted consumption in the local area.

2.2.2. SRA Secondary Trading

On 10 October 2017, in response to an NER rule change proposal submitted by Westpac Banking Corporation, the AEMC made a final determination to change the NER to enable AEMO, with the approval of the SRC, to provide a platform for secondary trading of settlements residue distribution units. The AEMC's determination considered secondary trading will improve liquidity in units, which in turn is likely to increase interstate trade of electricity, improve risk management, and increase competition in retail and wholesale markets.

Consultation on SRA secondary trading amendments to the APA commenced on 21 September 2018 and concluded on 30 January 2019. After system development work commenced to implement these changes, it was identified that there were further clauses and definitions in the APA that warrant further clarification. Consultation on these changes commenced on 23 April 2019, and is expected to conclude on 19 July 2019. This consultation can be accessed through the link below:

<http://aemo.com.au/Stakeholder-Consultation/Consultations/SRA-Secondary-Trading-Implementation-Consultation>

AEMO intends that the amendments from this consultation to implement 5MS will be incorporated into the APA version that is amended for SRA secondary trading.

2.3. First stage consultation

On 22 March 2019, AEMO issued a Notice of First Stage Consultation, and published an Issues Paper and draft procedures for the Policy.

The Issues Paper included details on AEMO's stakeholder engagement in developing the initial draft procedures and a summary of the specific amendments proposed in the initial consultation pack to address the potential impact of 5MS and GS.

⁴ AEMC. 2018. National Electricity Amendment (Global Settlement and Market Reconciliation) Rule 2018. Available: <https://www.aemc.gov.au/rule-changes/global-settlement-and-market-reconciliation>

⁵ Embedded networks will continue to be settled using settlements by differencing within the network



AEMO received one submission in response to the first stage consultation. Copies of all written submissions, minutes of meetings and issues raised in forums (excluding any confidential information) have been published on AEMO's website.⁶ A detailed summary of issues raised by Consulted Persons in submissions, together with AEMO's responses, is contained in Appendix B.

3. DISCUSSION OF MATERIAL ISSUES

This section details the material issues identified during the review process to date. It also provides AEMO's assessment of the issues and how AEMO proposes to address them.

3.1. Potential effect of Five-Minute Settlement and Global Settlement

3.1.1. Issue summary and submissions

Five Minute Settlement

From 1 July 2021, the duration of trading intervals will change from 30 minutes to five minutes because of 5MS. This will result in settlement amounts to be calculated using the spot price for each five-minute trading interval.

Clause 16.5 of the APA allows auction participants to terminate a Settlements Residue Distribution Agreement (SRDA)⁷ if there is a change in the way in which the settlement residue is calculated during the term of the SDRA. Under current arrangements this will give auction participants the ability to terminate the relevant SRDA because of 5MS related changes, even though they may be aware of these changes in advance when agreeing to the APA.

Global Settlement

Global Settlement will result in the settlement's framework moving from 'settlements by differencing' to 'global settlement'. This will also change how settlement residues are calculated, and similarly will also give participants the ability to terminate the relevant SDRA.

From 1 July 2021, the duration of trading intervals will change from 30 minutes to five minutes because of 5MS. This will result in settlement amounts to be calculated using the spot price for each five-minute trading interval.

Proposed Change

The proposed change to the APA involves additional clarifications to clause 16.5 to prevent new auction participants from using this clause as an exit strategy. The additions will clarify that this new clause will not apply to:

- Changes that commence operation before the start of the term of the SRDA
- Changes that are made before or published publicly before the start of the term of the SRDA but only commence operation during the term of the SRDA.

3.1.2. AEMO's assessment

Stakeholder feedback from Origin supported AEMO's proposed amendments to update clause 16.5 of the APA.

⁶ For more details on the Auction Participation Agreement first stage consultation see: <https://www.aemo.com.au/Stakeholder-Consultation/Consultations/Five-Minute-Settlement---Auction-Participation-Agreement>

⁷ If AEMO allocates units to an auction participant in accordance with the auction rules and sends a confirmation to the Auction Participant, AEMO and the Auction Participant will have entered into a Settlements Residue Distribution Agreement (SRDA) in respect of the given quarter for which the Auction Participant has been allocated Units.



AEMO notes that the proposed amendments do not affect the function of the APA, but are further clarifications around clause 16.5 to prevent new auction participants from using this clause as an exit strategy. Therefore, AEMO considers the current proposed amendments appropriate as reflected in the draft Policy.

3.1.3. AEMO's conclusion

AEMO's draft determination is to maintain the proposed updates to clause 16.5 as suggested in the Issues Paper.

4. OTHER MATTERS

AEMO is simultaneously conducting consultation on minor amendments to the APA to introduce SRA secondary trading. It was agreed by the SRC that the amendment to clause 16.5 will only be made effective after SRA secondary trading is implemented. This will provide a limited window for existing participants to execute a new APA that includes the changes to allow secondary trading without these new amendments. The indicative date for the amendment to clause 16.5 to be effective in the APA is November 2019. AEMO will publish a notice to inform participants 3 weeks before the effective date of the APA.

5. DRAFT DETERMINATION

Having considered the matters raised in the submissions, AEMO's draft determination is to amend the APA in the form of the draft procedure published with this Draft Report.

**APPENDIX A. GLOSSARY**

Term or acronym	Meaning
5MS	Five-Minute Settlement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
GS	Global Settlement
NEM	National Electricity Market
NER	National Energy Rules
PCF	Program Consultative Forum
PWG	Procedures Working Group
Rules	National Energy Rules
SWG	Systems Working Group
UFE	Unaccounted for energy
SRA	Settlements Residue Auction
SRC	Settlements Residue Committee
SDRA	Settlements Residue Distribution Agreement



APPENDIX B. SUMMARY OF SUBMISSIONS AND AEMO RESPONSES

No.	Respondent	Participant Comment	AEMO response
1.	Origin	<ul style="list-style-type: none">• Yes, Origin agrees with proposed APA as it gives the market certainty	<ul style="list-style-type: none">• AEMO notes the respondents support of the proposed change