

FIVE MINUTE SETTLEMENT – NEM SETTLEMENT REVISIONS POLICY CHANGES

ISSUES PAPER

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EXECUTIVE SUMMARY

The publication of this Issues Paper commences the first stage of the Rules consultation process conducted by AEMO to consider proposed amendments to the NEM Settlement Revisions Policy (the Policy) under the National Electricity Rules (NER).

AEMO has prepared this Issues Paper to facilitate informed debate and feedback by industry on updating the NEM Settlement Revisions Policy. In summary, the key amendments proposed to the NEM Settlement Revisions Policy involves:

- Potential content changes required as a result of the Five-Minute Settlement rule
- Potential content changes required as a result of the Global Settlement
- Amendments to the policy to clearly reflect the NER, including updates and refinements

AEMO invites stakeholders to suggest alternative options where they do not agree that AEMO's proposals would achieve the relevant objectives. AEMO also asks stakeholders to identify any unintended adverse consequences of the proposed changes.

Stakeholders are invited to submit written responses on the issues and questions identified in this paper by 5.00 pm (AEST) on 22 February 2019, in accordance with the Notice of First Stage of Consultation published with this paper.



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1. STAKEHOLDER CONSULTATION PROCESS

As required by the National Electricity Rules (Rules), AEMO is consulting on the NEM Settlement Revisions Policy (Policy) in accordance with the Rules consultation process in rule 8.9.

Note that there is a glossary of terms used in this Issues Paper at Appendix A.

AEMO's indicative timeline for this consultation is outlined below. Dates may be adjusted depending on the number and complexity of issues raised in submissions and any meetings with stakeholders.

Deliverable	Indicative date
Issues paper published	14 December 2018
Submissions due on Issues paper	22 February 2019
Draft Report published	22 March 2019
Submissions due on Draft Report	5 April 2019
Final Report published	13 May 2019

Prior to the submissions due date, stakeholders can request a meeting with AEMO to discuss the issues and proposed changes raised in this Issues Paper.

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)

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>



2. BACKGROUND

2.1 NER requirements

The policy outlines procedures around how AEMO prepares and issues routine and special revised statements under the National Electricity Rules (NER) 3.15.19.

2.2 Context for this consultation

2.2.1 Five-Minute Settlement

In November 2017, the AEMC made the 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.

2.2.2 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.

AEMO is required to update and publish a number of specified relevant procedures by 1 December 2019, to apply from the commencement date.³ While the Policy is not one of the specified procedures, AEMO's 5MS program has identified it as one of the publicly consulted documents that require amendment for 5MS implementation.

2.2.3 Global Settlement

A final rule for Global Settlement⁴ was made by the AEMC on 6 December 2018 to replace 'settlement by differencing' with a 'global settlements' framework for the demand side of the NEM.

Under the new global settlements framework, every retailer is 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 retailers' share of the loss-adjusted consumption in the local area.

Global Settlement will commence on 6 February 2022. However, the rule requires AEMO to publish UFE data on 1 July 2021, in line with the 5MS commencement date. This is so the industry can have information on the level of UFE and potentially address sources of UFE prior to global settlement starting.

2.2.4 Industry engagement on Settlement Revisions procedure

AEMO established the Procedures Working Group (PWG) to seek industry feedback on the appropriate amendments to procedures and other AEMO documents affected by 5MS. The PWG is an open forum for industry stakeholders to contribute to the procedure development process.

On 11 October, AEMO engaged with the PWG and circulated High Level Impact Assessments (HLIA)⁵ on proposed amendments to the NEM Settlement Revisions Policy. A Settlements Focus Group was also held

³ NER clause 11.103.2

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 AEMO. 2018. PWG Meeting Pack 4, page 37. Available: <http://aemo.com.au/-/media/Files/Electricity/NEM/5MS/Procedures-Workstream/PWG/2018/5MS-PWG-4-Meeting-Notes---11-October-2018.pdf>



on 26 November to discuss the impact of 5MS and global settlement on AEMO's settlements and prudentials procedures.



3. DISCUSSION

This section discusses proposed changes to the Policy resulting from the 5MS rule and the Global Settlement rule, and amendments to the policy to clearly reflect the NER, including updates and refinements.

AEMO will reformat the amended Policy in line with its current template for external procedures. As a result, some sections of the Policy are now updated under different headings. References to sections of the Policy in this Issues Paper are to the draft Policy (as amended for the purposes of this consultation), unless stated otherwise. A table mapping the sections of the current and amended Policy can be found in section 4 of this Issues Paper.

3.1 Potential effect of 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. Aside from this change in settlement calculation, AEMO's process of issuing revised statements and engaging with Market Participants will remain unchanged.

AEMO recognises there are some transitional considerations as 5MS is adopted. AEMO proposes introducing a new transitional clause in the Policy to confirm the following:

- Any routine and special revised statements covering settlement days before 1 July 2021 will be based on 30-minute prices, and from 1 July 2021 will be based on 5-minute prices.
- For the billing week in which the 1 July 2021 commencement date falls, settlement amounts will be separately aggregated for 30-minute and 5-minute settlement days.
- The change in trading interval duration by itself is not a reason to revise any settlement amount.

Questions

- Do participants agree with the proposed changes to the Policy in relation to 5MS?
- Are there other relevant issues that have not been considered?
- What is an alternative approach to updating the Policy in relation to 5MS? How would it be implemented?

3.2 Potential effect of Global Settlement

Global Settlement will result in the settlement's framework moving from 'settlements by differencing' to 'global settlements'. This will result in changes to how UFE is calculated for Market Participants.

Given that UFE is one of many inputs to calculate Adjusted Gross Energy (AGE), changes to how UFE is calculated may affect AGE and settlement amounts for Market Participants. However, any revision to or dispute about UFE volumes will be treated in the same way as any other component of a settlement amount. Hence, AEMO considers that no specific amendments to the Policy are required to address UFE revisions.



Questions

- Do participants agree with the proposed changes to the Policy in relation to Global Settlement?
- Are there other relevant issues that have not been considered?
- What is an alternative approach to updating the Policy in relation to Global Settlement? How would it be implemented?

3.3 Other Amendments

The Policy is also being updated to ensure it is as consistent as possible with the relevant provisions of NER clause 3.15.19.

New clause 2 replaces the principles previously stated in the Policy with a clearer statement of the NER requirements related to routine revised statements and special revised statements. The circumstances in which special revised statements can or must be issued are set out more clearly throughout clause 3, highlighting their connection with dispute resolution or GST adjustment as contemplated in the NER.

Other minor amendments to the Policy include:

- Transfer to the latest AEMO external procedure template.
- Editorial clarifications and updates.
- Removing the calendar example, instead referencing the NEM settlement calendars published on AEMO's website, to avoid outdated content.

Questions

- Do participants agree with the proposed changes to the Policy?
- Are there other relevant issues that have not been considered?



4. DRAFTING FOR PROPOSED CHANGES

To help stakeholders and other interested parties respond to this Issues Paper, AEMO has published a draft of the NEM Settlement Revisions Policy incorporating the changes AEMO proposes for consultation.

Note that AEMO has adopted a new document format for procedures. A clean version of the draft NEM Settlement Revisions Policy, and a change-marked version following the old format are available at: <http://aemo.com.au/Stakeholder-Consultation>.

A table mapping the old and new sections is provided in Table 3 below:

Table 3: Mapping of sections in previous (version 1.1) and updated (version 2.0) of the NEM Settlement Revisions Policy

NEM Settlement Revisions Policy	
Old Policy (version 1.1)	Updated Policy (version 2.0)
Glossary	Section 1.2.1
	Section 1.2.2
Section 1	Section 1.1
Section 2	Section 1.1
Section 3	<i>Removed</i>
Section 4	Section 2
Section 5	Section 3



5. SUMMARY OF MATTERS FOR CONSULTATION

In summary, AEMO seeks comment and feedback on changes to the NEM Settlement Revisions Policy on the following matters:

1. Potential effect of Five-Minute Settlement
2. Potential effect of Global Settlement (no changes proposed)
3. Other amendments for greater consistency with the NER and drafting updates and improvements.

Stakeholders are invited to submit written responses on the changes following the format of the Stakeholder Response Template. This is available at: <http://aemo.com.au/Stakeholder-Consultation>.

Submissions on these and any other matter relating to the proposal discussed in this Issues Paper must be made in accordance with the Notice of First Stage of Consultation published with this paper by 5.00 pm (AEST) on 22 February 2019.



APPENDIX A - GLOSSARY

Term or acronym	Meaning
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AGE	Adjusted Gross Energy
NEM	National Electricity Market
NER	National Energy Rules
UFE	Unaccounted for Energy