

# FIVE MINUTE SETTLEMENT – REALLOCATION PROCEDURES CHANGES

FINAL REPORT AND DETERMINATION

Published: **February 2019**





## EXECUTIVE SUMMARY

The publication of this Final Report concludes the consultation process conducted by AEMO to consider proposed minor amendments on the following procedures (Reallocation Procedures):

- Reallocation Procedure: Energy and Dollar Offset Reallocations (EDOR)
- Reallocation Procedure: Swap and Option Offset Reallocations (SOOR)

Consultation on the Reallocation procedures involved a single round of stakeholder consultation instead of the usual two rounds. After consulting with the industry through the Procedures Working Group (PWG) and Settlements Focus Group (SFG), AEMO adopted this approach because it considered the proposed amendments to the procedures to be administrative in nature.

On 21 December 2018, AEMO published the Notice of Consultation and draft Reallocation Procedures. The proposed amendments to the Reallocation Procedures involved:

- 5MS related changes
- Non-5MS related changes (option for a regional calendar, updates to the reallocation lodgement process)

AEMO received three submissions in response to the Notice of Consultation. From these submissions, AEMO considers that no further changes to the draft Reallocation Procedures were necessary.

AEMO's final determination is to amend the Reallocation Procedures in the form published with this Final Report.



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## 1. STAKEHOLDER CONSULTATION PROCESS

The matter for consultation involved changes on the following procedures (Reallocation Procedures) as a result of the Five-Minute Settlement (5MS) Rule and other matters.

- Reallocation Procedure: Energy and Dollar Offset Reallocations (EDOR)
- Reallocation Procedure: Swap and Option Offset Reallocations (SOOR)

Under clause 3.15.11A(c) of the rules, AEMO may make minor or administrative amendments to the Reallocation Procedures (EDOR and SOOR) without applying the full Rules consultation requirements as defined in clause 8.9 of the NER.

AEMO's timeline for this consultation was as follows.

Deliverable	Indicative date
Minor amendment consultation published	21 December 2018
Submissions due on minor amendment consultation	1 February 2019
Final Report published	28 February 2019

AEMO also consulted broadly on all 5MS-related changes through its 5MS program engagement channels.<sup>1</sup> The relevant engagement channels include:

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

The publication of this Final Report marks the end of this consultation. Note that there is a glossary of terms used in this Final Report at Appendix A.

## 2. BACKGROUND

### 2.1. NER requirements

AEMO established and maintains the Reallocation Procedures as required by clause 3.15.11A of the NER:

- AEMO must develop and publish procedures in accordance with the Rules consultation procedures, to enable Market Participants to create and record reallocation requests and reallocation transactions in accordance with clause 3.15.11 in respect of electricity trading transactions other than those conducted through the market and/or establish mutual indemnification arrangements with other operators of markets for electricity-based trading (the reallocation procedures).*
- AEMO may, from time to time and in accordance with the Rules consultation procedures, amend or replace the reallocation procedures.*
- Paragraph (b) does not apply to amendments to the reallocation procedures that are of a minor or administrative nature and AEMO may make such amendments at any time.*
- NEMMCO must develop and publish the first reallocation procedures by 1 January 2008 and there must be such procedures available at all times after that date.*
- AEMO is not required to meet its obligations under paragraph (a) in any way which increases AEMO's risks in the collection of moneys owed to it in accordance with any provisions of the Rules.*

<sup>1</sup> 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>



## 2.2. Context for this consultation

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.

The final 5MS Rule requires AEMO to update and publish a number of specified relevant procedures by 1 December 2019. While the Policy is not one of the specified procedures, AEMO has identified it as one of the publicly consulted documents that will require updates to align with 5MS.

At the SFG meeting held on 26 November 2018, participants supported AEMO's proposal to support only 5-minute reallocations from 5MS commencement date (1 July 2021).<sup>2</sup> Participants expressed that this was contingent on AEMO's systems being able to accept 5-minute reallocations (relating to periods from 1 July 2021) at least 6 months in advance. Procedural amendments to support this change are administrative only.

Other amendments not directly related to 5MS were discussed at SFG meetings. These include amending the Reallocation Procedures to allow for the option of using regional calendars, and also updates to the reallocations lodgement process section.

## 2.3. Consultation approach

Consultation on the Reallocation Procedures involved a single round of stakeholder consultation instead of the usual two rounds. After consulting with the industry through the PWG and SFG, AEMO adopted this approach because it considered the proposed amendments to the procedures were administrative in nature (NER 3.15.11A(b)).

On 21 December 2018, AEMO issued a Notice for Consultation and published an updated draft of the Reallocation Procedures.

AEMO received three submissions in response to the Notice of Consultation. Having considered these submissions, AEMO concluded that no further changes to the draft Reallocation Procedures were necessary.

Copies of all written submissions, minutes of meetings and issues raised in forums (excluding any confidential information) have been published on AEMO's website.

<https://www.aemo.com.au/Stakeholder-Consultation/Consultations/Five-Minute-Settlement---Reallocation-procedures>

## 3. SUMMARY OF AMENDMENTS

### 3.1. 5MS related changes

5MS related changes to the Reallocation Procedures involve administrative updates as outlined below:

- Update of all references to half-hourly energy profile and half-hourly regional reference price to trading interval energy profile and trading interval regional reference price respectively.
- Removal of all references to 48 period IDs, replaced with a new definition of 'Period ID' that allows for 48 intervals up to the 5MS commencement date and 288 intervals afterwards.
- Update of specified trading interval times to cover 30 minute and 5-minute intervals as applicable.

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<sup>2</sup> SFG minutes available at: <http://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Five-Minute-Settlement/Procedures-Workstream/Procedures-Working-Group>



Transitional arrangements for 5-minute reallocations from the 5MS commencement date are also reflected in the Reallocations Procedures. AEMO's approach is that no 30-minute reallocations can be entered or processed in respect of any period from 1 July 2021. AEMO will make the functionality to accept 5-minute reallocations available ahead of time, and will notify reallocation participants when this feature is available.

### **3.2. Non-5MS related changes**

Other amendments not directly related to 5MS include:

- Procedures updated to reflect new AEMO procedures format.
- Expanded definition of 'Calendar' for the purposes of defining business and non-business days for a reallocation transaction on a regional basis. This definition expansion facilitates the possible implementation of functionality that would give participants the option of selecting between the current NEM calendar or a regional calendar for reallocation transactions. AEMO is currently investigating how this new regional calendar functionality could be implemented.
- Update of the Lodgement Process section to expand methods available to market participants for reallocation data submission.

## **4. DISCUSSION OF ISSUES**

### **4.1. 5MS related changes**

#### **4.1.1. Issue summary and submissions**

Stanwell Corporation and Ergon Energy Queensland (EEQ) were supportive of the amendments proposed by AEMO to support 5MS. Origin Energy did not comment specifically on these amendments and raised no objections.

It was also discussed at the December 2018 5MS Australian Financial Markets Association (AFMA) working group that some participants intended to continue to deal in 30-minute contracts post-2021. Working group participants sought guidance from AEMO on the treatment of these 30-minute contracts after the 5MS commencement date.

A detailed summary of issues raised by Consulted Persons in submissions together with AEMO's responses, is contained in Appendix B.

#### **4.1.2. AEMO's assessment**

AEMO notes that SFG members expressed very limited interest in maintaining processes and interfaces to handle 30-minute reallocations. This was on the basis that a reallocation interface would be made available with enough lead time to allow 5-minute reallocations to be entered.

Participants that wish to reflect 30-minute contracts in AEMO systems after the 5MS commencement date can still do so by dividing the energy volume into 6 equal parts, and using the same strike price for each 5-minute period. This approach will correctly settle 30-minute contracts based on \$, MWh or Swap agreement types from 1 July 2021.

AEMO acknowledges that Cap and Floor reallocation types cannot be correctly reflected in 5-minute periods if the contract was based on a 30-minute strike price. However, given that there are no reallocations of this type in use, AEMO does not believe that support for Cap and Floor reallocations at a 30-minute level will be required in the future.

The Reallocation Procedures will be updated in line with the change in definition of trading interval in the 5MS Rule, and AEMO's proposal to support only 5-minute reallocations after 1 July 2021. There was no



objection to this approach in the consultation submissions and no alternative approaches were proposed. AEMO also considers that reallocation participants will be able to use the 5-minute reallocation interface in a way that allows 30-minute contracts that are currently used by participants to be correctly settled after 1 July 2021 if necessary.

#### **4.1.3. AEMO's conclusion**

AEMO will maintain its approach as outlined in Section 3 of this Final Report. This is reflected in the final Reallocation Procedures published with this Final Report.

## **4.2. Non-5MS related changes**

### **4.2.1. Issue summary and submissions**

Ergon Energy Queensland (EEQ) was supportive of the amendments proposed by AEMO. Stanwell Corporation was also supportive and had some queries related to the functionality and design of the potential option to add a regional calendar for reallocations. Origin Energy requested more information regarding the implementation of new types of reallocations.

A detailed summary of issues raised by Consulted Persons in submissions together with AEMO's responses, is contained in Appendix B.

### **4.2.2. AEMO's assessment**

The proposed procedure change relating to regional calendars gives AEMO the option of adding in a regional calendar for participants to use for reallocation transactions. It does not change the current functionality of the NEM calendars for reallocations transactions. AEMO is still exploring the best approach for implementing regional calendars, and the associated costs. This functionality may not be implemented with the 5MS project. AEMO will engage with stakeholders through the NEM Wholesale Consultative Forum,<sup>3</sup> PWG or SFG as relevant on this matter.

The potential implementation of new reallocation types is a material change that is out of scope for the 5MS project. AEMO has therefore determined not to include the issue in this consultation.

### **4.2.3. AEMO's conclusion**

AEMO will maintain its approach as outlined in Section 3 of this Final Report. This is reflected in the final Reallocation Procedures published with this Final Report.

## **5. FINAL DETERMINATION**

Having considered the matters raised in the submissions, AEMO's final determination is to amend the Reallocation Procedures in the form of the uploaded final procedures published with this Final Report. The amended Reallocation Procedures will come into effect on the date of publication.

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<sup>3</sup> For more details on the NEM Wholesale Consultative Forum see: <https://www.aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/Wholesale-meetings/NEM-Wholesale-Consultative-Forum>

**APPENDIX A. GLOSSARY**

Term or acronym	Meaning
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
EDOR	Energy and Dollar Offset Reallocations
EEQ	Ergon Energy Queensland
NEM	National Electricity Market
NER	National Electricity Rules
PWG	Procedures Working Group
SFG	Settlements Focus Group
SOOR	Swap and Option Offset Reallocations
SWG	Systems Working Group



## APPENDIX B. SUMMARY OF SUBMISSIONS AND AEMO RESPONSES

No.	Respondent	Participant Comment	AEMO response
1.	Stanwell Corporation	<p>Overall Stanwell supports both the proposed:</p> <ul style="list-style-type: none"> <li>• Transitional arrangements for five-minute reallocations post the 5MS commencement date; and</li> <li>• Approach to update the reallocations interface prior to the 5MS transition date to provide the functionality to participants to accept five-minute reallocations for those period</li> </ul>	<ul style="list-style-type: none"> <li>• Noted</li> </ul>
2.	Stanwell Corporation	<p>It was agreed by participants of the Settlements focus group, a subset of the Procedures Working Group, that the production interface be made available at least 6 months prior to the 5MS start date (i.e. no later than 1 January 2021). Stanwell strongly supports this as it would allow participants sufficient time to register their reallocations with AEMO prior to the 5MS commencement date. It would also ensure the reallocations are registered with sufficient time to be considered for prudential purposes, this being the main reason participants enter into reallocation contracts.</p>	<ul style="list-style-type: none"> <li>• AEMO is working towards having the reallocations production interface being available to market participants at least 6 months prior to the implementation of 5MS.</li> <li>• AEMO will continue to communicate with participants on this timeline through the PWG, SWG or SFG.</li> </ul>
3.	Stanwell Corporation	<p>Stanwell supports the option for participants to register and settle reallocations based on NEM regional business calendars.</p>	<ul style="list-style-type: none"> <li>• Noted</li> </ul>
4.	Stanwell Corporation	<p>Stanwell proposes that greater consistency would be achieved if the regional calendar definitions aligned with the Electricity Market Conventions as published by the Australian Financial Markets Association</p>	<ul style="list-style-type: none"> <li>• While the amended procedure is written to allow for additional calendars, at this stage the exact method of implementation, including what regional calendars could be used is still under investigation.</li> <li>• The AFMA calendar is one of the calendars that will be considered.</li> <li>• This will be further discussed with participants through the relevant AEMO forums.</li> </ul>
5.	Stanwell Corporation	<p>Where possible, the regional calendars should be publicly available for participants to ensure consistent applications of business and non-business days across participants.</p>	<ul style="list-style-type: none"> <li>• AEMO agrees. Any new regional calendar, if utilised would be published by AEMO ahead of time to allow participants to appropriately plan reallocations.</li> </ul>



6.	Stanwell Corporation	<p>Stanwell requests clarification on where participants would choose the regional calendar as an option when submitting a reallocation request. The current drafting of the 'Day Type' data item in Table 1: Data Required for submission of a reallocation request of both procedures includes a reference to the "applicable calendar", however it is not clear where participants could select the calendar type and how this would operate in practice.</p>	<ul style="list-style-type: none"> <li>• The proposed procedure changes will give AEMO the option of adding in regional calendars for participants to use for reallocations.</li> <li>• AEMO is still exploring the associated costs and best approach to implement regional calendars, and notes that the development of this new functionality may not be implemented with the 5MS project.</li> <li>• AEMO will keep participants informed on any decisions related to regional calendars and their implementation through the relevant AEMO forums.</li> <li>• Irrespective of whether regional calendars are implemented, AEMO only intends to expand the choice of calendars. Participants will always have the option of choosing the NEM calendar (as current).</li> </ul>
7.	Origin	<p>As requested at the Settlement Managers Working Group, hosted in November 2018, in Melbourne, Origin request that AEMO provide a high-level design approach as to how a meter following re-allocation could work.</p>	<ul style="list-style-type: none"> <li>• The implementation of new reallocation types will be managed outside of the 5MS project and is out of scope of this procedure consultation. Further engagement on this matter will be through the relevant AEMO forums.</li> </ul>
8.	Ergon Energy Queensland	<p>Ergon Energy Retail supports the proposed changes as drafted to the Reallocation Procedures for Energy and Dollar Offset Reallocations and the Swap and Option Offset Reallocations as detailed in the consultation documents.</p>	<ul style="list-style-type: none"> <li>• Noted</li> </ul>