

Factsheet

Five Minute Settlement (5MS)

Aligning market's price signal with the physical electricity system, which matches demand and supply every five minutes.

In 2017, the AEMC approved the introduction of 5MS by 1 October 2021, with AEMO responsible for changes to metering, settlement, prudentials and bidding processes, as well as electricity retail and wholesale market systems. This is an important market reform that **reflects the evolving energy system** and an initiative that **aligns very closely with AEMO's priority areas** as we work in collaboration with stakeholders to navigate the energy future to benefit market participants and consumers.



AEMO is responsible for the settlement of all electricity bought and sold through the NEM's wholesale electricity pool. Retailers and wholesale customers pay AEMO on a weekly basis, and AEMO subsequently pays generators. For more information, please refer to the [NEM Fact Sheet](#).

WHAT IS THE ISSUE?

Since the start of the NEM in 1998, the scheduled process for generators to dispatch electricity has operated on a five-minute basis, but settlements on a 30-minute basis. This anomaly can cause inefficient pricing outcomes and has been identified as a contributing factor to disorderly bidding.

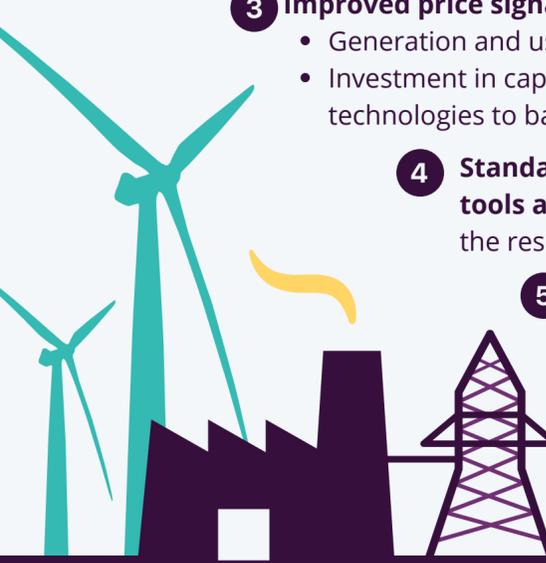


WHAT IS 5MS?

5MS will shift the current 30-minute wholesale electricity spot market settlement period to five-minutes, providing a better price signal for investment in faster response technologies, such as batteries and gas peaking generators. It will also enable more efficient bidding, operational decisions and investments, aligned to dispatch and financial settlement periods.

WHAT ARE THE BENEFITS?

- 1 More **user-friendly interfaces** making it faster and clearer to perform tasks, like submitting bids, and more **automated ways** of exchanging data, through additional APIs.
- 2 **Improved** bidding incentives
- 3 **Improved price signals** for more efficient:
 - Generation and use of electricity.
 - Investment in capacity and demand response technologies to balance supply and demand.
- 4 **Standardisation of architectures, tools and coding** which can increase the resilience of our network.
- 5 Aligning financial incentives with physical operation will **more accurately reward** those who can deliver supply or demand side responses when they are needed by the power system.



MARKET
CONSUMER

- 1 **A more reliable power system** - 5MS encourages investment in fast response and flexible technologies, which back up the system in real-time when the wind stops blowing and the sun stops shining.
- 2 **Lower wholesale electricity costs** - over time, improved price signals will lead to more efficient decisions by generators lowering wholesale costs which make up around one third of a typical bill.
- 3 **Rewards for customers who respond to demand peaks** - for example, factories that invest in smart IT can switch off machines quickly to avoid high spot prices. Homes with smart batteries can earn a high spot price by providing a boost of power when the system needs it.



HOW IS 5MS BEING IMPLEMENTED?

Through AEMO's dedicated 5MS program, AEMO has updated market procedures, systems and is facilitating an efficient transition to the new 5MS rule by working closely with industry members via working groups and forums.

The working groups and forums have enabled AEMO's 5MS Program to consult and engage industry members to help them prepare for the 5MS rule changes on 1 October 2021. They also provide members with an opportunity to discuss and contribute feedback and ideas that help shape program decisions and outcomes.

“The extensive stakeholder collaboration has been valuable for the decision-making process and program outcomes, and essential for market readiness.”



AEMO'S ENGAGEMENT PLAN



Held **over 150** industry working groups and forums



Held seven **General Information Sessions**



Distributed, and published the results of, **12 Industry Readiness Surveys**



Issued **15 program updates** to over 550 subscribers

WHAT ABOUT GLOBAL SETTLEMENT (GS)?

The new GS rules will be implemented by the 5MS Program, utilising the same engagement structure as 5MS. The full commencement of GS will begin on 1 May 2022. However, unaccounted for energy (UFE) data will be published by AEMO from 1 October 2021, to ease the transition to GS. Refer to the [GS Fact Sheet](#) on the [AEMO website](#) for further details.