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Mr John Pierce  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Ref: SBR008912



Dear Mr Pierce

### **SUBMISSION TO AEMC - FIVE MINUTE SETTLEMENT**

Thank you for the opportunity to make a submission on behalf of the Victorian government to the Commission's Directions Paper on five minute settlement in the National Electricity Market (NEM).

The energy market is changing rapidly, and a secure path needs to be found to an electricity system with a low carbon emissions profile, while defending affordability and jobs in the Victorian economy. The Victorian Government is playing its role by substantially increasing the role of renewables in the energy sector through the Victorian Renewable Energy Target, and fostering new energy jobs and technologies such as grid connected battery storage and energy efficiency measures.

The increasing role of renewables, which are largely variable in output at this stage of their development, means there is an acknowledged need for the market to be more flexible in responding to fluctuating supply and demand. At the same time, new technologies – particularly but not limited to battery storage – hold considerable potential to offer rapid responses to these fluctuations.

However, as the AEMC points out in its Directions Paper, the incentives to deploy new solutions to these problems are considerably muted by the current 30 minute settlement regime in the NEM. The AEMC's indicated direction to pursue a transition to a five minute settlement regime, allowing better matching of short term energy and demand response solutions to the needs of the market, is a positive one and supported by the Victorian Government.

It is noted that the AEMC discusses at length the issues raised by existing generators that moving to five minute settlement would disrupt the secondary market for risk management around the NEM, with potential adverse impacts on retail competition. This is a risk that must be grappled with, and the AEMC's proposal to have a managed transition is welcome and prudent. The AEMC should make all efforts to ensure that the transition is not compromised by unmanaged impacts on financial markets. However, fundamentally sound economic reform such as this should not be held up based on inefficient current patterns of supply.

The Victorian government urges the AEMC to move quickly on these transitional issues so that better outcomes for consumers and the market can be realised. The AEMC should investigate the potential for new risk management avenues to be opened up by the transition to five minute settlement, and make recommendations to facilitate them. Where new technological solutions appear to manage the physical risks in the NEM that give rise to short term price movements, these should be able to be

translated into appropriate financial instruments to manage financial risk. The barriers that new solutions, such as battery storage and demand side response, may face in participating in financial markets should be made a topic of inquiry.

I trust this input is of assistance. If you have any questions about this submission, please contact Raif Sarcich, Principal Policy Officer at [raif.sarcich@delwp.vic.gov.au](mailto:raif.sarcich@delwp.vic.gov.au) or at (03) 9637 8122.

Yours sincerely



**Paul Murfitt**

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