



Mr Ben Noone
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000

Lodged via www.aemc.gov.au

Wednesday, 18 October 2017

Dear Mr Noone,

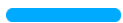
RE: Five-Minute Settlement Draft Determination (Ref: ERC0201)

ENGIE appreciates the opportunity to comment on the Australian Energy Market Commission (AEMC) draft determination regarding the proposed five-minute settlement rule change for the national electricity market (NEM).

ENGIE has made previous submissions to the AEMC's consultation paper and directions paper, has provided a presentation to the AEMC public forum in May 2017, and has participated in the Australian Energy Council's engagement of Russ Skelton & Associates and SEED Advisory and the preparation of their reports. In all of these processes, a key message has been that five minute settlement will impose large costs, and will undermine the ability of open cycle gas turbines (OCGT) to offer financial cap contracts.

The AEMC have acknowledge in the draft determination, the potential risks to the contract market associated with a move to five minute settlement. The draft determination suggests that the reduction in cap contracts from OCGTs will be balanced by an increase in alternative risk management options from emerging technologies such as storage and advanced demand response. ENGIE accepts that these technologies have the potential to provide five minute risk management products in the future. ENGIE is concerned, however, that the AEMC are prepared to risk the integrity of cap contracts, a fundamental component of the NEM, with a gamble that new solutions will emerge in time to take over from the OCGT contracts.

ENGIE would prefer that the transition to five minute settlement is not commenced until such time that it is clear that these new technologies are available in sufficient volume to provide the risk management products that the market requires. To commence the transition on the expectation that the new technologies will emerge is a risky leap of faith.





ENGIE also notes the recent announcement from the federal government to introduce new reliability contract obligations onto retailers. Although there is still much detail to be revealed, it seems clear that such mechanisms are intended to provide incentives for existing thermal generation to be available for dispatch. It would be a serious concern if five minute settlement acted as a barrier to OCGT's being able to participate in the proposed reliability contract mechanism.

As noted above, ENGIE has participated in Australian Energy Council (AEC) processes in consideration of this rule change and fully supports all of the points made in the AEC submission as well as the arguments outlined in the consultancy reports from Russ Skelton & Associates and SEED Advisory. ENGIE will not repeat those points in this submission.

ENGIE's preferred position would be that the AEMC delay the commencement of the transition to five minute settlement until such time that it is clear that there is sufficient storage and demand response service available to provide the necessary risk management products.

If the AEMC are determined to go ahead and commence the transition despite the absence of sufficient new technology risk management options, then ENGIE is strongly of the view that the transition time needs to be sufficiently long to enable an orderly transition from the current 30 minute contracts to the new 5 minute variety, and to also provide time for the expected new technologies to become established. ENGIE does not believe that the proposed three and a half year transition period will be sufficient to achieve this objective.

ENGIE suggest that the transition period needs to be at least five years to ensure that all forward contracts can be transitioned in an orderly manner, and that the new technologies that will be relied upon to provide risk management products in the future, are sufficiently established in the NEM.

ENGIE trusts that the comments provided in this response are of assistance to the AEMC in its deliberations. Should you wish to discuss any aspects of this submission, please do not hesitate to contact me on, telephone, 03 9617 8331.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Chris Deague".

Chris Deague
Wholesale Regulations Manager