

Project Number: ERC0201

**AEMC Rule Changes: High Resolution Market Design
(Five Minute Settlement)**

17 October 2017

Australian Energy Market Commission (**AEMC**)
PO Box A2449
Sydney South, NSW 1235
Email: aemc@aemc.gov.au

Lyon's support for expediting AEMC's *Draft Determination* transition

Dear AEMC,

Lyon Infrastructure Investments 1 Pty Ltd (Lyon) is pleased to support the introduction of AEMC's proposed Rule Change with respect to Five Minute Settlements. In providing that support we consider it important to make the following points in relation to the proposal.

Lyon considers that the AEMC has not been aggressive enough in its proposed timeframe to modernise the market and needs to expedite the rule change so that start date is **Monday, 1st July 2019**.

We consider that the negative effects purported for financial intermediaries and existing participants is significantly overstated and does not provide the basis to delay the rule change beyond **Monday, 1st July 2019**.

Lyon recognises that that some one-off transition costs that will be incurred by the industry during the transition phase. However, the quantum of long-term contracts which may be impacted by the rule could in fact be less than first thought.

As the AEMC is aware¹, the vast majority of ASX products, swaps and cap volume trades occur within a 12 month period, suggesting that delaying the rule introduction until 1st July 2021 to insulate forward markets is unnecessary.

Furthermore, AFMA reporting of ASX and OTC trading was that in 2014/15, 95 per cent of the open volume of swaps and 97 per cent of the open cap volume, was for tenors equal to or less than 12 months. While this does not indicate the timing of the delivery period, it does suggest that the bulk of trading activities occurs close to the delivery period².

¹ Edge Energy (2017). *Effect of 5 Minute Settlement on the Financial Market*

² AEMC (April 2017). *Directions Paper 5 Minute Settlement Rule*

The rule change will facilitate a *high resolution market design*³ and should promote fast responding technologies, increased competition, new technologies and lower emissions that are all urgently required in Australia.

With the community facing severe electricity affordability challenges and security of supply issue, businesses and consumers are under unacceptable financial pressure. The target date proposed by AEMC for the implementation of the Five Minute Settlements rule change will exacerbate this situation.

Lyon considers that changing dynamics of Australia's electricity system and the need for fast responding assets such as battery storage need to be facilitated by an early implementation of the rule.

Lyon's alliance partner, AES Energy Storage, has successfully integrated a 20MW battery solution with a 544MW thermal power plant to support greater responsiveness, reliability and asset utilisation in Northern Chile. This clearly demonstrates a precedence for new opportunities to emerge in Australia to bring forth new large scale renewable plus storage projects as well as innovative complements to existing generation once this rule change is introduced.

The industry incumbents have a clear incentive to delay the implementation of the rule change and we encourage the AEMC to see through this self-interest in order to speed the modernisation of the electricity system and the benefits that will bring to the community.

By way of background to Lyon, Lyon is a leading Australian renewable and storage developer, with a pipeline of 1700MW of solar and 1000MWh of storage projects across Australia. In particular, Lyon's experience in configuring utility scale, fast responding renewable projects in markets such as South Australia – with Fast Frequency Response requirements – reinforces our belief in the importance of designing responsive and secure system that encourages competition, reliability and robust price signals. Indeed, Lyon is confident that this rule change will encourage a more efficient wholesale market, greater utilisation of new energy technologies, increased competition and place downward pressure on power prices⁴. Lyon strongly believes that the proposed transition period of 3 years and 7 months is not aligned with the long term interests of Australian consumers.

Lyon considers that moving the industry to embrace the change by setting a Monday, 1st July 2019 is achievable. In doing so, the AEMC will establish Australia's power system to deliver a more secure, reliable, cost efficient and low carbon energy future that shall position Australian business and consumers with well for the ensuing decade of 2020.

³ International Energy Agency (2016). *Re-powering Markets – Market design and regulation during the transition to low-carbon power systems*.

⁴ Australian Competition and Consumer Commission (2017). *Retail Electricity Pricing Inquiry – Preliminary Report*.

Yours sincerely,


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David Green

Chairman, signed on behalf of Lyon Infrastructure Investments 1 Pty Ltd