

Mr John Pearce
Chairman
Australian Energy Market Commission
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Dear Commissioner,

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Five Minute Settlement Proposal

Pacific Aluminium welcomes the opportunity to make a submission to the Australian Energy Market Commission (AEMC) in relation to the proposed rule change "five minute settlement". We apologise for the late delivery of our submission.

About Pacific Aluminium

In Australia, Pacific Aluminium owns 59 per cent of Boyne Smelter (BSL), 42 per cent of the Gladstone Power Station (GPS), 100 per cent of the Bell Bay Aluminium Smelter in Tasmania and 51 per cent of the Tomago Aluminium Smelter in Newcastle. These assets hold unique positions in the Queensland, Tasmanian and NSW electricity sectors consuming between 10 - 30 per cent of each States power (355 - 955MW) with GPS being the largest power station in Queensland (1680MW). Pacific Aluminium also owns 79 per cent of New Zealand's Aluminium Smelter.

Each asset is a key contributor in the region they operate and collectively Pacific Aluminium generates revenues of approximately \$2.7 billion, produces in excess of 1.1 million tonnes of aluminium per annum and directly employs close to 3,500 people in the region. Sales are primarily shipped to export markets in Asia.

The Proposed Rule Change

Sun Metals Ltd (Sun Metals) has submitted a rule change request to the AEMC which proposes compulsory five minute settlement for generators, scheduled loads and market interconnectors. Demand side participants in the wholesale market could choose to be settled on either a 5 or 30 minute basis.

Sun Metals suggests that the mismatch between the dispatch and settlement intervals leads to inefficiencies in the operation and generation mix of the market.

Pacific Aluminium Response

Is there a problem?

In the submission paper, Sun Metals describes a scenario where a large price spike occurs for a single 5 minute period and a range of inefficient market outcomes occur as a result.

In Pacific Aluminium's view the material difference of a 5 or 30 minute settlement is less substantial, if there is confidence in a pre-dispatch and bidding process that reflects the supply and demand characteristics of the market. Transparency in price allows peaking generators and demand side response users to act accordingly to produce efficient market outcomes. However, where a dominance of market share exists then there is a potential for inefficient market outcomes evidenced by the recent focus on the "bidding in good faith" rule changes.

Pacific Aluminium observes that there is a demonstrated and requisite need for the rule changes around "bidding in good faith". To give one example, consider the events of the 28th of March 2016 in the QLD market where over 755MW of generation was rebid over a 10 minute period to the market cap when pre-dispatch indicated settlement <\$60/MW. This was despite the low demand on what was an Australian public holiday (Easter Monday). This type of bidding behaviour is in the opinion of Pacific Aluminium of much more material impact on prevailing pool pricing and Pacific Aluminium awaits the introduction and effect of the "bidding in good faith" measures from July 1st before considering the need to change the settlement interval.

Settlement Residue

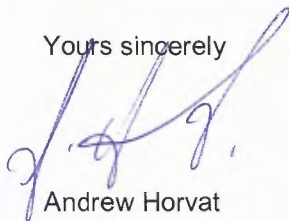
This submission notes that 5 minute settlement for generators may create conditions advantageous to fast response generation. A 5 minute settlement for users will correspondingly be advantageous to demand response that can deploy within the 5 minute dispatch period. There are potentially only a small number of generators and demand side users who can respond this fast. However, Pacific Aluminium believes this rule change is unlikely to provide incentive for physical changes in the network. We believe it may provide a stronger incentive for large share market generators to change bids close to dispatch with a higher portion of demand response and generation unable to economically react.

It is noted that Sun Metals proposes to remedy this by allowing users to elect whether they are on 5 minute or 30 minute settlement terms. However this would create the issue of residues. Some of the scenarios proposed to remedy residues have uncertain outcomes and may end up transferring costs from fast response demand side users to other users in the network depending on how the rules are applied. This aspect of the proposed rule change would need careful consideration to determine the effect on the market.

In conclusion

Pacific Aluminium supports the objective that Sun Metals has in proposing this rule change to support demand response and more efficient outcomes in the network. It would appear that this rule change is being proposed in part to remedy problems with transparency of pricing, and confidence in pre-dispatch which we believe is a result of the imbalance of market power in some states. For this reason Pacific Aluminium suggests that the AEMC conducts an assessment of the effectiveness of the "bidding in good faith" measures following their introduction on July 1st before considering the merits of changing the settlement interval.

Yours sincerely



Andrew Horvat

General Manager Energy