

18 May 2016

Australian Energy Market Operator,
Level 2, 20 Bond Street,
Sydney, NSW, 2000**Rule Change Proposal: Non-scheduled-generation-in-central-dispatch**

Westpac does not support the proposals to include loads and non-scheduled generation in central dispatch.

As a significant intermediary in the wholesale electricity market, Westpac watches pre-dispatch very closely and particularly on high price days. Westpac's opinion is that the current pre-dispatch process is sufficient for its purpose and that adding loads or small generators to pre-dispatch will not make a material improvement to pre-dispatch that is distinguishable from the noise currently in demand forecasts.

Figure 1 shows that the usual variation in demand vs forecast demand is on the order of 100MW. This is much higher than the current 30MW threshold for mandatory registration of peaking generators.

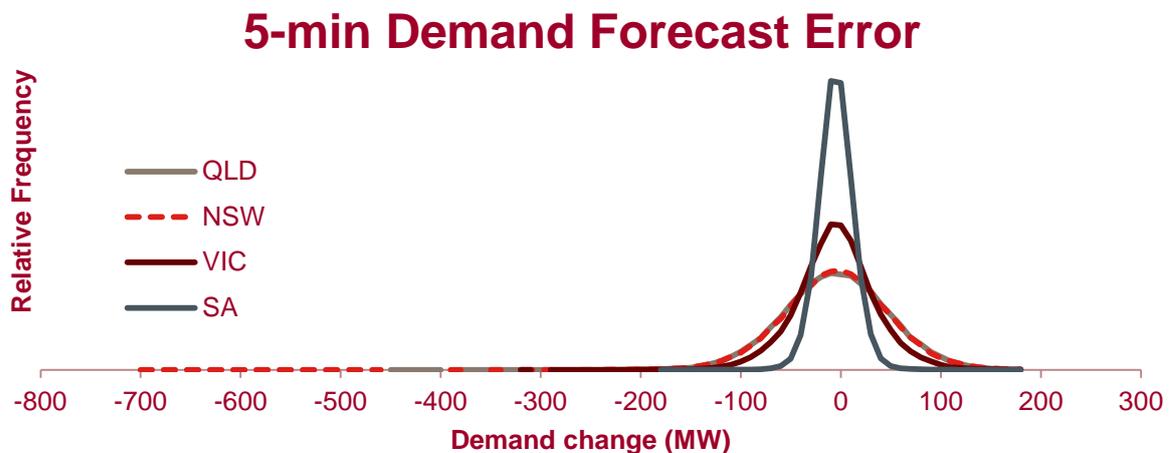


Figure 1: 5 Minute ahead pre-dispatch demand forecast error over the last year

Price sensitive load, such as smelters, may indeed change demand faster than 200MW in 5 minutes. Changes to demand greater than 200MW are also not always evidence of demand side management as sudden weather changes or distribution line outages can also cause rapid changes. Regardless of the cause, rapid changes to demand are still far less frequent than rapid changes to supply. Generators frequently change both their overall available capacity and their real power output in the order of several hundred MW. Statistically, at an aggregate level in each region, changes to supply (total capacity) greater than 200MW are 5 times more frequent than changes to demand greater than 200MW in pre-dispatch.

The proposed rule change would impose a considerable impost on the demand side. The rule change should be evaluated in light of the comparatively lower impact that the demand side has on pre-dispatch accuracy. A high level of consideration should be given to the time cost to management of understanding and complying with a more onerous mechanism of interacting with the spot market. Energy trading is non-core business for small generators and interruptible loads. Generators and financial intermediaries such as Westpac dedicate several full time roles to analysing weather, network

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constraints, technical issues and other market drivers in order to understand pricing outcomes in the NEM. Westpac believes it is unreasonable to ask small operators to bid into the energy market with similar rigor to large generators. The learning curve for demand-side operators wishing to participate in the energy market is already very steep and this proposal would substantially increase barriers to entry from the demand side of the market (including small generators).

Finally, rendering market participation more onerous for loads and small generators may actually increase the risk of supply shortages. Demand side response and market use of backup generators is a highly capital efficient way of meeting peak demand and great care should be taken before adding further disincentives to participation. Discouraging demand-side participation would not promote efficient investment, as outlined in the National Energy Objective.

In line with the core principles underpinning an effective market, it is important that the market does not introduce rules that would reduce or remove the ability of any consumers, retail or wholesale, from responding to prices. The ability to respond to prices in very short periods is far more valuable in the NEM compared to other markets due the high level of volatility.

About Westpac

Westpac is a major supporter of Australia's electricity sector and market participants. Westpac supports its customers not only as a credit provider to electricity retailers and wholesale electricity providers, but also through the provision of a broad range of products and services.

Key amongst these additional products and services is Westpac's role as the largest and oldest financial intermediary in the wholesale electricity market. Westpac is a key market maker and liquidity provider in the SFE and OTC markets – a service which direct feedback clearly indicates is highly valued by our customer base and other market participants as it enables them to manage the price risks associated with their core business.

Yours Sincerely,

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