28 November 2012

Mr Jeremy Llewellyn
Director – Wholesale Markets Branch
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Dear Mr Llewellyn

Re: Response to the Significant Price Variation in the STTM – Reporting Trigger Issues Paper

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to comment on the Australian Energy Regulator's (AER) Reporting Trigger Issues Paper in relation to significant price variations in the Short Term Trading Market (STTM).

As background, Stanwell is a Queensland Government owned generator, with the capacity to supply more than 45% of the State's peak power needs. We are a diversified energy company, with an energy portfolio comprising coal, gas, diesel and hydro power generation facilities geographically dispersed across Queensland.

Stanwell is an active participant in the STTM, specifically in the Brisbane hub. Our generation assets include Swanbank E Power Station, a Combined Cycle Gas Turbine power station. Gas for Swanbank E is obtained from multiple sources including coal seam methane fields in south west Queensland via the Roma to Brisbane Pipeline.

As a general comment, given the relative immaturity of the STTM, Stanwell strongly recommends consideration be given to undertaking a periodic review of the reporting thresholds to determine whether they remain appropriate. Such a review could be undertaken on an annual basis until such time as a less frequent review timeframe is considered appropriate. The ability to review the thresholds is particularly important given the high level of uncertainty in the gas market, which is impacted by the uncertainties of domestic and international LNG and future gas prices. Stanwell supports the inclusion of a review mechanism, irrespective of the actual thresholds put in place as a result of the current review process.

Stanwell's response on a number of specific matters identified in the Paper is set out below. We welcome the opportunity to discuss the matters contained in our submission in more detail.

Consultation Topic #1 – General Considerations

Stanwell notes the factors that are identified in the Issues Paper as being relevant to determining the level at which the price trigger should be set. Stanwell is concerned that the reporting triggers proposed in the paper, primarily standalone daily price

thresholds, do not provide any context to the underlying performance of the market or the drivers of significant prices in the market.

It is important to clarify that a deviation in price between the provisional bid or offer two days ahead of the gas day (D-2) and the gas day can occur for a number of valid reasons. A price deviation in and of itself does not demonstrate a form of market failure or indicate a lack of compliance with the good faith provisions of the National Gas Rules (NGR).

Market participants such as Stanwell, operating in both the STTM and also the National Electricity Market (NEM), are constantly reassessing their positions for both gas and electricity. The NEM operates on half hourly pricing that is highly volatile, necessitating continual re-examination of our bidding structures.

The ability to vary a bid or offer in the STTM after D-2 does not ameliorate the responsibilities of the trader to ensure that the D-2 bid was undertaken in good faith, and reflected the best available information at that time.

Stanwell considers it important that the intricacies of a gas fired generation business such as Stanwell are effectively understood by the regulator, as should be the case for the industries in which other market participants operate. This understanding should then assist in determining appropriate and effective reporting thresholds that provide the necessary tools for the regulator to interrogate gas prices to determine whether there are any underlying market issues.

Stanwell would welcome the opportunity to sit down with the regulator to work through some practical examples that outline the nexus between the STTM and the NEM, and the impact of these interrelationships on participant behaviour in the STTM.

Without consideration of these inter-relationships, the reporting triggers could be incorrectly formulated resulting in over reporting. This could create uncertainty for market participants and impact the efficient operation of the market (e.g. effective price signalling). This issue is likely to escalate over time as the level of integration between the gas and electricity markets increases.

Stanwell urges the regulator to adopt a robust reporting process that effectively distinguishes between one-off market price variations that may be the result of any number of legitimate operational factors and systemic behaviour by one or more participants that is driving poor market outcomes. Further, it is imperative the regulator is then able to determine whether such systemic behaviour is the failure of a participant to abide by the good faith provisions of the NGR or is representative of a market design issue.

There are a number of controls in place in the STTM already to address the issue of market behaviour, not the least of which is a commitment made by market participants to comply with the good faith provisions of the NGR prior to the commencement of trading. This is a commitment that is not taken lightly by participants. Further, the Australian Energy Market Commission is currently considering possible changes to the MOS mechanism in the STTM, including

shortening the period of MOS and adopting a 'cost to cause' approach for MOS payments and charges.

Stanwell continues to support market based approaches that aim to address shortcomings in the market framework without imposing an unnecessary burden on market participants. Stanwell considers that this approach, when combined with a reporting trigger mechanism that is sufficiently robust to distinguish between legitimate market price volatility and systemic market behaviour issues, will drive an outcome that is consistent with the National Gas Objective, namely the efficient investment in, and efficient operation and use of, natural gas.

Overall, Stanwell recommends that the triggers are formulated with the objective of identifying systemic behavioural concerns that limit the overall efficiency of market rather than identifying natural and infrequent price variations that reflect prevailing supply-demand conditions.

Consultation Topic #2 – Variations between the D-2 price, ex ante price and ex post price

Stanwell reiterates its position that there are a number of valid operational reasons for variations in the ex ante price and ex post price. These differences are further exacerbated when a comparison is made between the D-2 price and either the ex ante or ex post price. Consistent with our position on Topic #1 (General Considerations), Stanwell considers it imperative that a broader context is taken into account when examining movements in price, rather than purely focusing on the price itself.

Notwithstanding our position on broader considerations for reporting triggers, Stanwell has no objection to setting a price variation of $7 between the D-2 price and the ex ante price or between the ex ante and ex post price, as long as this is reviewed as required to reflect market changes.

Consultation Topic #3 – Variations in Gas Day Prices

Stanwell notes that current reporting arrangements in the Victorian Gas Market incorporate a combination of daily prices and a price compared to a rolling average reference price.

Notwithstanding the simplicity of adopting a single daily price approach, Stanwell is concerned that this fails to take into account the broader movements in gas prices during the period. Rather than setting the threshold as a standalone number, Stanwell considers it important to also incorporate some form of rolling average approach. Such an approach would provide some context to the price on a particular gas day. The alternative (i.e. a daily price) may result in a situation where the threshold is triggered simply because the price on that day exceeds the trigger, yet that price is not dissimilar to the average price for the last month.

Consultation Topic #4 – Variations between MOS Service Payments

Stanwell has no objection to setting the reporting threshold for MOS service payments of $250,000. A reporting threshold set at a lower level will create an unduly burdensome reporting regime that would be of questionable value in terms of identifying potential areas of concern.

Consultation Topic #5 – Other Market Events

Stanwell considers that the gas trigger events identified in Consultation Topics 2 to 4 are sufficient. Stanwell concurs with the AER that a contingency gas trigger event or a capacity payment should not be made a significant price variation reporting trigger.

If you wish to discuss any of these issues further please do not hesitate to contact me on (07) 3228 4352 or Mr Peter Tolhurst, Market Regulation Advisor, on (07) 3228 4163.

Yours sincerely

T. Mills

Tanya Mills
General Manager Portfolio Trading