

Brisbane Office

GPO Box 773,  
Brisbane, Q 4001  
Office Phone: (07) 3335 7444  
Office Fax: (07) 3335 7477

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Dr John Tamblyn  
Chair  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Dear Dr Tamblyn

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to provide comments on the Australian Energy Market Commission (AEMC) Review of *Energy Market Frameworks in light of Climate Change Policies (the Review) Scoping Paper*. Stanwell views the primary purpose of the process is to identify the transitional risks (and mitigation measures) associated with the Carbon Pollution Reduction Scheme (CPRS) and the expanded Renewable Energy Target (RET) rather than revisit wholesale changes to the market design. Significant changes to the electricity and gas markets will compound regulatory uncertainty for an industry already grappling with the introduction of an Emissions Trading Scheme. We note that the AEMC is seeking input on the following:

- Whether the scope has been identified appropriately;
- What issues are most material; and
- What evidence is relevant to assess the materiality of each issue.

As Background, Stanwell is a Queensland Government-owned Corporation (GOC) with an energy portfolio comprising coal and hydro located in Central and North Queensland. Our major asset is the 1400MW Stanwell Power Station, which is a coal-fired facility located near Rockhampton in Central Queensland. Our hydro assets include Kareeya (88MW) and Barron Gorge (60MW) Power Stations in North Queensland. Stanwell also manages the energy trading operations of Gladstone Power Station (1680MW) in Central Queensland. Stanwell has also recently acquired a 20% stake in Blue Energy. Blue Energy is a Coal Seam Gas exploration company.

Stanwell has not addressed each of the areas outlined in the Paper. Rather we have focused on the key issues facing the generation sector in Queensland including:

- Congestion Management; and
- Convergence of gas and electricity markets.

We are also involved in developing a submission with other generating corporations on the topic of - financing of new energy investments and what adjustments to market frameworks, if any, would be desirable to ensure that investment is forthcoming at least cost. This submission will be provided shortly. It looks at the costs and benefits of capacity markets in managing transitional change.

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## Congestion Management

Stanwell was active in the Congestion Management Review (CMR) completed by the AEMC earlier this year. We strongly supported the AEMC's general findings that the materiality of congestion across the National Electricity Market (NEM) did not warrant the introduction of a broad-scale congestion management regime. Since releasing the Report, the Commonwealth Government has provided further clarity on the CPRS and the expanded RET.

These policies will alter expectations on future generation patterns however. Regions such as Queensland will continue to be characterised by demand growth, met by further large-scale generation investments. The key drivers in these investment decisions are access to competitively priced fuel (and water) and necessary transmission infrastructure. It is unlikely that locational pricing will alter the timing or size of these types of investments.

Stanwell does not support a broad scale review of Congestion Management regimes in the NEM. To date the transmission reliability requirements have delivered sufficient investment in transmission to avoid persistent and enduring congestion in Queensland. There is no reason to believe that this will not continue under the CRPS and the expanded RET as long as the Regulatory Investment Test (RIT) adequately accounts for joint economic and environmental objectives. A NEM wide review of CMR arrangements will also create added regulatory uncertainty at a time when the industry is managing the major changes associated with introduction of the CPRS.

Further to these comments we consider that the following issues are material and should form part of the Review:

- **Generator access arrangements** – would provide a greater level of investment certainty to new and existing investors. This is particularly important as the CPRS could create on-going policy uncertainty. There is also a need to investigate connection issues for remote renewable generation.
- **Review of the Regulatory Investment Test** – to date the RIT has been reasonably effective in facilitating network augmentation and avoiding material levels of congestion. Moving forward, it will need to incorporate environmental policy objectives to maintain its effectiveness. Stanwell engaged ACIL Tasman to consider the case for expanding the Regulatory Test to incorporate broader economic impacts. While this Report (attached) did not specifically consider environmental issues, it might provide a useful framework for examining the issue.
- **Localised Review of Congestion Management Regimes** – we recognise that the CPRS and RET will promote large volumes of intermittent wind generation mostly in the southern states, which could create significant levels of inefficient network congestion. Some areas in the network might therefore benefit from a reconsideration of the costs and benefits of different congestion management frameworks. If found beneficial, a congestion management regime could be designed for specific parts of the network without distorting the economic outcomes of the wider NEM market.

## **Convergence of electricity and gas markets**

One of the key issues in facilitating long-term growth of gas-fired generation is to ensure competition in up-stream gas markets, gas processing and transportation infrastructure. This, in turn, will drive competition in the gas-fired generation sector. Given the increasingly important role gas is playing as a transitional fuel under the CPRS, ensuring the appropriate market frameworks are in place will become increasingly important in delivering competitively priced gas-fired generation. For example, gas peaking plant will require access to a flexible short-term market to manage variable fuel requirements.

There are two aspects to facilitating competitive gas markets:

- Creating a competitive market framework for upstream gas production; and
- Developing open gas processing and transportation infrastructure, facilitated by a policy framework for competitive infrastructure delivery.

To date most of the discussion has centred on gas as a power generation fuel and does not directly deal with gas production or transportation. We consider that there is a clear regulatory and policy requirement to create a strong framework for delivering gas to power generation.

On this basis, we consider the Review has a role to play (directly or indirectly) in recommending and implementing changes that will drive further competition in upstream gas markets. Key initiatives are:

- Development of a short-term spot market, which may assist new Coal Seam Methane (CSM) entrants. The current bi-lateral nature of the gas market acts as a barrier to entry for new producers without a well-developed customer basis. A short-term spot market will assist in the establishment of new entrants by providing an alternative market to sell residual production. We note that on a national level, work has commenced in this area. However, in light of the CPRS, timeframes need to be brought forward and where possible aligned (where possible) with the electricity market operations.
- Improving access to interconnections between pipelines to ensure that the benefits of development of transparent markets extend throughout the national pipeline system;

**Other issues to be considered as part of the Review – permit auction design**

While permit auction design forms part of the CPRS policy development process, the outcomes could limit the effectiveness of the market to deliver reliable energy supplies. For example, auctions which are held too frequently could limit the development of the secondary markets and alternative risk management instruments. Conversely, infrequency actions could place energy business under financial stress due to unmanageable working capital requirements. These issues should form part of the review in the context of maintaining energy security and reliability.

Yours faithfully



John Bampfyde  
Acting Chief Executive Officer

Enquiries:	Direct Phone:	07 3335 3804
	Direct Fax:	07 3335 3822
	Email:	<a href="mailto:erin.bledsoe@stanwell.com">erin.bledsoe@stanwell.com</a>