

10 October 2012

Mr Steven Graham
Chief Executive Officer
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Graham

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to comment on the rule change request proposed by the Australian Energy Market Operator (AEMO) with respect to the timing and eligibility of the market operator service (MOS) 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.

We note that the rule change request relates to two components of MOS, namely the MOS period and timing aspects of the MOS offering process, and the eligibility of MOS provision.

Stanwell supports AEMO's contention that the present three month MOS period set out in the Procedures contributes to a lack of competition for MOS provision. While we are supportive of a reduction in the MOS period from three months to one month, Stanwell recommends consideration is given to shortening the period even further to daily, or weekly at the longest.

Stanwell considers that daily MOS would further improve the efficiency of MOS pricing and increase competition in the provision of MOS. Further, given AEMO states in its rule change request that it would be able to publish the MOS stack one hour after MOS offers have been submitted, there would appear to be no practical impediment to moving to daily MOS.

In relation to the eligibility of MOS provision, Stanwell strongly supports extending the eligibility criteria on the grounds that such an extension will increase market participation; increase competition and drive an economic price for gas. Allowing MOS services to be subcontracted should also increase the efficiency of pipeline investment.

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

Rules to Procedures

Question 1 – Interdependence of provisions

Question 2 – Parameters in the National Gas Rules (NGR)

Question 3 – Appropriate regulatory instrument

Given the interrelated nature of the first three questions, Stanwell would like to respond to these questions collectively.

Stanwell supports the position adopted by AEMO that the MOS period and MOS process timings are interdependent, and should be dealt with in the one regulatory instrument. Further, the most appropriate regulatory instrument for these parameters is the Procedures rather than the NGR. Stanwell supports the transition of such matters to the Procedures given that AEMO would necessarily be mindful of the need to promote efficient investment in, and the economic price of, natural gas.

Moving the MOS process timings to the Procedures would provide greater flexibility and reduce the administrative burden for the regulator and participants. It is also important to note that such a move would not compromise the regulatory certainty for participants given the existing change and consultation process in place under the Procedures.

As stated above, Stanwell is supportive of a reduction in the MOS period from three months to one month. However, given the proposed rule change will require a number of amendments to the NGR and the Procedures, consideration should be given to using this opportunity to further reduce the MOS period to daily, or at the most, weekly. Stanwell cannot envisage any administrative impediments to moving to a daily MOS as part of this rule change process.

Stanwell acknowledges that there may be merit in retaining some parameters in the NGR that limit the extent to which detailed matters can be further specified in the Procedures. Such limitations provide greater regulatory certainty for market participants, thereby encouraging market participation and increasing the efficiency of MOS provision.

Stanwell is supportive of the NGR containing a maximum time window for MOS process timings. Consistent with our position above, we support a maximum window of one month. In the event that a move to daily MOS is not supported at this time, a time period ceiling of one month provides sufficient flexibility to move to a reduced MOS period (e.g. weekly or daily) at a later date. Stanwell does not see any merit in adopting a minimum time window for MOS process timings.

Question 4 – Deletion of the requirement for AEMO to publish a notice inviting MOS offers

Stanwell does not support the removal of the requirement for AEMO to publish a notice inviting MOS offers if the MOS period is either maintained at three months or reduced to one month. Stanwell considers monthly MOS to be of sufficient duration to warrant a 'trigger' mechanism whereby the market is reminded to submit MOS offers. Stanwell is concerned that the removal of a notification mechanism may lead to potential oversight by market participants, particularly those who trade infrequently.

Stanwell is supportive of a reduction in the notification period of 40 business days to a period such as 10 or 15 business days, to coincide with the reduced MOS timing to monthly.

In the event that daily or weekly MOS were to be adopted, Stanwell has no objection to the removal of AEMO notifications to participants, given that the MOS timings would be of sufficient regularity that the risk of potential oversight is remote.

Question 5 – Eligible MOS providers

Stanwell supports the proposal that trading right holders with an appropriate underlying agreement be allowed to offer MOS in the STTM. The current eligibility criteria unnecessarily limit the availability and competition in MOS supply, thereby reducing the efficiency of the market.

Stanwell concurs that the expansion of eligibility to trading right holders creates an alternative source of revenue for a contract holder that does not wish to trade gas in the STTM.

Consistent with our position above, Stanwell does not see any valid reason for MOS provision being treated differently to the provision of gas in the ex-ante market or as contingency gas.

If you wish to discuss any of these issues further please do not hesitate to contact me on (07) 3228 4529 or Mr Peter Tolhurst, Market Regulation Advisor, on (07) 3228 4163.

Yours sincerely



Erin Bledsoe
Manager Regulatory Strategy