

16 January 2017

Kate Reid  
Project Leader  
Australian Energy Market Commission  
Submitted via website  
AEMC reference - GRC0036

Dear Kate

**Re: National Gas Amendment (Gas day harmonisation) Rule 2016 Draft Determination**

Thank you for the opportunity to provide comment on the Australian Energy Market Commission's (AEMC) National Gas Amendment (gas day harmonisation) Rule 2016 Draft Determination (draft determination). Stanwell notes that the AEMC has determined that the short term benefits of the rule change are limited and have therefore set the implementation date for the rule to 1 April 2021 when major gas reforms are expected to be completed.

Stanwell's interest in the gas market is as a trader of gas and industrial buyer for the gas-fired Swanbank E and Mica Creek power stations. Swanbank E has a capacity of 385 megawatts (MW) and is located 10km from Ipswich. Mica Creek Power Station is 218 MW and is located near Mount Isa. Stanwell is an active participant in the Brisbane STTM and the Wallumbilla hub.

Stanwell supports the principle of aligning the gas days but does not support the draft decision made by the AEMC.

**AEMC decision making process**

According to the assessment framework as set out in the draft determination<sup>1</sup>, the AEMC was to consider the rule change request against the National Gas Objective<sup>2</sup> and take into account whether the rule change would:

- reduce administrative and operational costs for participants; and
- enhance the efficient operation of the facilitated gas markets and use of natural gas services.

In making its assessment, the AEMC has concluded in the near term that: *benefits would be limited and may not outweigh the implementation costs*<sup>3</sup>, but that, "*greater benefits that exceed costs would emerge if harmonisation of the gas day used in the facilitated markets was coordinated with the introduction of the anticipated exchange-based wholesale market trading arrangements and the short-term pipeline capacity trading framework.*"<sup>4</sup> The AEMC has therefore set an implementation date of 1 April 2021.

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<sup>1</sup> Page 13, Draft Determination

<sup>2</sup> Section 23 of the National Gas Law: "To promote efficient investment in, and efficient operation and use of, national gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas."

<sup>3</sup> Executive Summary, Draft Determination

<sup>4</sup> Page 54, Draft Determination

The AEMC has considered known current costs against contingent future benefits in making its decision. This decision making approach does not appear to be robust or consistent with the approach with which the AEMC usually makes determinations. While the complementary regulatory changes are processes the AEMC intends or expects to complete, they do not have a committed form or timing, and thus the potential benefits derived must be considered speculative in nature. The gas day harmonisation draft determination provides a clear example of where expected processes can be delayed or abandoned upon detailed consideration.

It would be more appropriate to conclude, based on costs and benefits under current (and committed future) market arrangements, that the gas harmonisation rule change should not proceed at this time.

The manner in which this decision has been made leaves significant uncertainty for participants and sets a poor precedent for future decisions. In contrast, when the AEMC concluded that the benefits of the Optional Firm Access model did not exceed the costs under current conditions, the decision was to terminate the project and set up a process for regular review of the conditions. This approach could be used by the AEMC for the gas day harmonisation proposal.

Despite the long proposed implementation time the AEMC's decision creates uncertainty. It is possible that the complementary gas reforms may be delayed, or abandoned. If this were to occur the benefits of a harmonised gas day may not exceed the costs, or implementation may need to be delayed further for benefits to accrue (ultimately) to consumers. The draft determination also appears to not address the issues around the need for simultaneous changes to large numbers of systems and devices, or transitional measures to manage this. In these situations, participants may be able to do little in the near term to prepare for a harmonised gas day.

### **STTM market must retain its 1:30pm close time**

The AEMC has mischaracterised Stanwell's support for the gas day harmonisation proposal which was conditional on the close time for the STTM remaining at 1:30pm. In its draft determination the AEMC has dismissed this proposal:

*“In addition, the draft rule does not alter the closing time for bids and offers across the STTM hubs to 1.30 pm, as suggested by Stanwell. The Commission considers this change would impose additional costs on AEMO [Australian Energy Market Operator] and market participants with the benefits being limited to gas fired generators.”<sup>5</sup>*

### **Benefits of 1:30pm close time**

A 1:30pm close time allows gas fired generators adequate time to review AEMO's 12:30pm pre-dispatch forecast and trade gas prior to the STTM market close. Stanwell uses the 12:30pm pre-dispatch forecast to refine the operational profile of our generation assets including the gas fired Swanbank E. In light of any changes to the operational profile of Swanbank E, Stanwell has the option to buy or sell gas in the one hour before the Brisbane STTM market close (at 1:30pm).

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<sup>5</sup> Page 43, Draft Determination

Reducing the usefulness of the STTM by closing the market at 11:30am rather than 1:30pm does not appear consistent with the Council of Australian Government's Energy Council's Gas Market Vision<sup>6</sup>. The vision emphasised a desire for well designed gas markets which support trading.

### ***Minimal additional costs on AEMO***

The AEMC claimed that retaining the 1:30pm close time, “*would impose additional costs on AEMO*”<sup>7</sup>. There is no evidence in the draft determination of the extent of the AEMC's inquiries into this matter. Instead, it appears from the evidence presented, that retaining the 1:30pm market close time would have minimal additional costs on AEMO.

The AEMC states: “*AEMO indicated that the proposed new gas day start time can be implemented in the STTM through changes to the configuration of the scheduling application. The STTM market systems are automated to run market actions at an offset to the gas day start time. Accordingly, re-configuration of the start time will have the flow on effect of changing the intra-day times of activities while retaining the relative time frames.*” It is unclear why altering the “offset” for all regions with STTMs would incur significant cost, particularly given an extended implementation period as proposed.

In addition, the total cost to AEMO of only \$100,000 to change its information technology systems, infrastructure and procedures and processes to amend the gas day start time in both the STTMs and GSHs implies that the cost to change the “offset” would be minimal.

### ***Gas consumption by gas fired generators is large and growing***

The AEMC claimed that the benefits of retaining the 1:30pm market close time are, “limited to gas fired generators”. Even if benefits were limited to gas fired generators, these are a large and important segment of the gas market, with the most variable demand profile of all participants in the STTM and gas supply hubs. In addition, according to AEMO, gas consumption by gas fired generators may become more significant in coming years<sup>8</sup>. In any case, an extended, useful market trading window would benefit all market participants, not just gas fired generators. Certainly the experience from Queensland is that a 1:30pm STTM closing time does not impair any other elements of a functioning market.

Thank you for your consideration of Stanwell's response to the consultation paper. If you would like to discuss any aspect of this submission, please contact Jennifer Tarr on 07 3228 4546.

Yours sincerely

**Luke Van Boeckel**  
**Manager Regulatory Strategy**  
**Energy Trading and Commercial Strategy**

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<sup>6</sup> <http://www.coagenergycouncil.gov.au/publications/coag-energy-council-australian-gas-market-vision>

<sup>7</sup> Page 43, Draft Determination

<sup>8</sup> “Gas consumption by gas powered generation is forecast to rise”, Executive Summary, 2016 National Gas Forecasting Report, AEMO, December 2016