

1 June 2015

John Pierce
Australian Energy Markets Commission
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Sydney South NSW 1235
Submitted via AEMC website - GPR0003

Dear John,

RE: East Coast Wholesale Gas Market and Pipeline Frameworks Review, Stage 1 Draft Report

Thank you for the opportunity to provide comment on the East Coast Wholesale Gas Market Frameworks Review (Review) Stage 1 Draft Report (Draft Report). We note the Draft Report sets out the AEMC's preliminary recommendations on the areas of focus for longer term market reform, as well as "no regrets" initiatives that can be progressed in the near term.

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 power station has a capacity of 385MW and is located 10km from Ipswich, QLD. Mica Creek power station is 302MW and is located near Mount Isa, QLD. Stanwell is an active participant in the Brisbane STTM and Wallumbilla hub.

Stanwell's vision for the east coast gas markets

Stanwell envisions a single east coast gas market which is liquid, transparent and which provides appropriate signals for investment and supply. Stanwell acknowledges that this vision is a long term goal and that appropriate transition steps must occur. Importantly, existing property rights must be protected.

Stage 2 directions

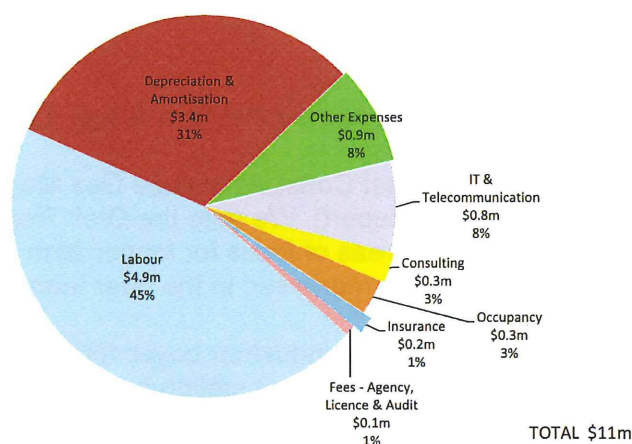
It appears that the AEMC has moved away from long term fundamental, visionary changes to the gas markets and is instead continuing to support piecemeal development. For example, the AEMC is recommending changes to the STTM, DWGM and Wallumbilla GSH without first developing a clear long term strategy. Such a long term strategy will determine whether these market designs and locations are actually appropriate. With continued piecemeal development, it is unlikely that COAG's vision for a "liquid wholesale gas market" and "an efficient reference price" will be achieved. Instead, liquidity will continue to be stifled by the complexity of the arrangements.

Redesigning the STTM

Stanwell does not support redesigning the STTM without first understanding how this strategy fits into the AEMC's long term vision for the gas markets. Significant capital has been spent on the development of the STTM which is still being recovered from participants. Once this has been recovered, participant costs are expected to fall. Redesigning the STTM will involve further expenditure and it is unclear whether the cost will outweigh the benefit, especially if the STTM is not part of the AEMC's long term vision. In addition, the proposed change will not facilitate market entry for new gas retailers.

The AEMC has identified that the STTM is expensive to operate and participate in. Stanwell agrees with this assessment. The budget for operating the STTM in 2015/16 is \$11m which is about 8.2c/GJ¹. As can be seen in the pie chart below, \$4.9m (45%) of the cost of operating the STTM is labour costs. This seems to be very high given market operations should be highly automated. A review of the STTM operating costs may identify areas for cost reduction which could be achieved without redesigning the whole STTM model.

Figure 2 Expenditure by category 2015-16



Developing a long term strategy for the location of facilitated gas markets

As discussed above, this long term strategy development step should take place before the individual markets are redesigned.

Some participants have been critical of AEMO developing the Moomba GSH before a long term strategic direction on the location and design of the future gas market has been enunciated. By recommending a redesign of the STTM, DWGM and Wallumbilla GSH before developing the long term strategy, the AEMC risks making the same mistake.

Further develop the Wallumbilla GSH

Stanwell supports the AEMC's intention to complement the work being undertaken by AEMO on the Wallumbilla GSH. Stanwell supports the AEMC's proposed study into the effects on the competitive landscape for the provision of hub services (including the possible need for economic regulation). The information provided by this study is likely to provide valuable context for the development of the long term vision as well as other potential supply hubs.

Potential measures to better facilitate pipeline capacity trading

Stanwell supports the AEMC's investigation into measures to better facilitate pipeline capacity trading. It is Stanwell's experience that the regulatory framework for pipelines does not provide the right incentives for the efficient allocation of capacity or enough flexibility to promote an active short term market. While Stanwell supports change, existing property rights must be protected.

¹ AEMO STTM Gas Budget and Fees 2015-2016 <http://www.aemo.com.au/About-AEMO/Corporate-Publications/Energy-Market-Budget-and-Fees>

Strategic direction for information provision, including the Bulletin Board

Stanwell supports the AEMC's consideration of the strategic direction for the Gas Bulletin Board. Stanwell supports the AEMC's desire to balance the cost of changes to data coverage, timeliness and accuracy against the benefits.

In order to improve the Bulletin Board, Stanwell would like to see policy makers address the following:

1. Ensure all important pipelines, production and storage facilities are registered and therefore required to provide data
2. Ensure data is accurate and provided in a timely manner
3. Enhance the useability of the Bulletin Board by providing it in a database format similar to AEMO's electricity market "Infoserver".

This is discussed further below.

Stage 1 review: Issues that can be progressed in the short term

Improving price transparency through either a survey-based gas price index and/or aggregating existing publically available information

Stanwell does not support the use of a survey-based gas price index. The market is too illiquid and bespoke to generate a meaningful benchmark. In addition, in the absence of an active liquid market in gas derivatives, it would be very difficult for the survey-based gas index to achieve the International Organization of Securities Commissions (IOSCO) principles of financial market data². Stanwell understands that the Australian Financial Markets Association (AFMA) has previously considered creating a benchmark but did not proceed at that time due to the difficulty in making the index IOSCO compliant.

Further, Stanwell does not support a government body aggregating existing publically available information as a "free" service. Although this role may increase transparency and therefore increase the ease with which users can access key information, it comes at a cost. Gas market participants and/or consumers and/or taxpayers will need to fund this service and it is unclear whether the cost will exceed the benefit.

Given the complexity of the existing gas market arrangements (long and short term markets, different locations, availability of capacity), any data publication must be clear as to which segment of the market the information relates to. The data publication must also state any caveats to its wider applicability, for example aggregating long term bilateral supply agreements will be of little relevance to STTM or GSH pricing and participation.

In addition, this is a service that private providers have begun to develop, and are likely to enhance over time. Government involvement in collating information may "crowd out" private providers leading to an inferior suite of information services over the long term.

² Principles for Financial Benchmarks, International Organization of Securities Commissions
<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf>

Establishing the Bulletin Board as a “one-stop-shop” for all gas market data, including enhancing compliance with BB requirements

Stanwell supports the AEMC’s changes in order to make the Bulletin Board a more comprehensive source of information, improve its useability and functionality and improve the reliability of the information provided.

The first step to improve the usefulness of the Bulletin Board is to ensure that all important facilities are registered. Once registered, these facilities have reporting obligations to the Bulletin Board. Stanwell’s analysis indicates that there are a wide range of key pipelines, production and storage facilities which are not registered.

For example, Stanwell’s analysis of the pipelines identified by the AER as “major transmission pipelines” in the table below³, indicates that multiple key transmission pipelines are not registered. In addition to the three LNG pipelines (which may still be working through their registration processes), the unregistered transmission pipelines include the key Wallumbilla to Darling Downs Pipeline and the Berwyndale to Wallumbilla Pipeline. These pipelines were both commissioned in 2009, are not registered and don’t appear to have an exemption from registration.

³ State of the Energy Market 2014, AER,
<https://www.aer.gov.au/sites/default/files/State%20of%20the%20energy%20market%202014%20-%20Chapter%204%20-%20Gas%20pipelines%20A4.pdf>

Table 4.1 Major gas transmission pipelines

PIPELINE	LENGTH (KM)	CAPACITY (TJ/D)	COVERED?	OWNER
EASTERN AUSTRALIA				
QUEENSLAND				
North Queensland Gas Pipeline	391	108	No	Victorian Funds Management Corporation
Queensland Gas Pipeline (Wallumbilla to Gladstone)	629	142	No	Jemena (State Grid Corporation 60%, Singapore Power International 40%)
Carpentaria Pipeline (Ballera to Mount Isa)	840	119	Yes (light)	APA Group
Berwyndale to Wallumbilla Pipeline	113		No	APA Group
Dawson Valley Pipeline	47	30	No (revoked 2014)	Westside 51%, Mitsui 49%
Roma (Wallumbilla) to Brisbane	440	219	Yes (2012–17)	APA Group
Wallumbilla to Darling Downs Pipeline	205	400	No	Origin Energy
South West Queensland Pipeline (Ballera to Wallumbilla)	756	181	No	APA Group
QSN Link (Ballera to Moomba)	180	212	No	APA Group
Gladstone LNG Pipeline	435	1420	No	Santos; PETRONAS, Total, KOGAS
Queensland Curtis LNG Pipeline	334	1410	No	BG Group
Australia Pacific LNG Pipeline	362	1560	No	Origin Energy, ConocoPhillips, Sinopec
NEW SOUTH WALES				
Moomba to Sydney Pipeline	2029	420	Partial (light)	APA Group
Central West Pipeline (Marsden to Dubbo)	255	10	Yes (light)	APA Group
Central Ranges Pipeline (Dubbo to Tamworth)	300	7	Yes (2005–19)	APA Group
Eastern Gas Pipeline (Longford to Sydney)	795	268	No	Jemena (State Grid Corporation 60%, Singapore Power International 40%)
VICTORIA				
Victorian Transmission System (GasNet)	2035	1030	Yes (2013–17)	APA Group
South Gippsland Natural Gas Pipeline	250		No	DUET Group
VicHub		150 (into Vic)	No	Jemena (State Grid Corporation 60%, Singapore Power International 40%)
SOUTH AUSTRALIA				
Moomba to Adelaide Pipeline	1185	253	No	QIC Global Infrastructure
SEA Gas Pipeline (Port Campbell to Adelaide)	680	303	No	APA Group 50%, Retail Employees Superannuation Trust 50%
TASMANIA				
Tasmanian Gas Pipeline (Longford to Hobart)	734	129	No	Palisade Investment Partners
NORTHERN TERRITORY				
Bonaparte Pipeline	287	80	No	Energy Infrastructure Investments (APA Group 20%, Marubeni 50%, Osaka Gas 30%)
Amadeus Gas Pipeline	1512	104	Yes (2011–16)	APA Group
Daly Waters to McArthur River Pipeline	330	16	No	Power and Water
Palm Valley to Alice Springs Pipeline	140	27	No	Australian Gas Networks (Cheung Kong Infrastructure)

TJ/d, terajoules per day.

Note: The Moomba to Sydney Pipeline is uncovered from Moomba to the offtake point of the Central West Pipeline at Marsden.

Sources: National Gas Market Bulletin Board (www.gasbb.com.au); Bureau of Resources and Energy Economics; EnergyQuest, *EnergyQuarterly* (various issues); corporate websites.

In terms of production facilities, Stanwell understands that the operators of these facilities have an obligation to register the facility on the commencement of operations. While many of the LNG production facilities have been registered, AEMO must be vigilant in ensuring the remainder register in a timely manner.

There are only 3 registered storage facilities, however there are at least 4 additional unregistered storage facilities which appear to meet the criteria for registration. The biggest of these is the Moomba Storage Facility. This storage facility is capable of delivering gas into the Moomba to Sydney Pipeline and Moomba to Adelaide Pipeline without the gas first being

processed at the Moomba production facility. Because of these characteristics it is an integral piece of the market and should be transparent to participants.

Many of the key unregistered pipelines, production and storage facilities identified by Stanwell either should have been registered, or, given their importance, should be registered by AEMO. AEMO has the power to register transmission pipelines, production facilities and gas storage facilities under the National Gas Rules, Part 18, Division 3, Section 153 "AEMO may declare a pipeline or facility to be a BB facility".

Stanwell supports increased compliance on the timeliness of publications to the Bulletin Board. As a user of the Bulletin Board, it is very frustrating to find out of date information. It appears as though AEMO are not empowered to follow up on late or missing data until at least 1 week after the due date.

As discussed in our last submission, consideration should be given as to the most appropriate IT platform for the publication and submission of data. Stanwell would prefer to see further consistency between the existing IT data publication processes currently operated by AEMO for the NEM and that operated by AEMO for the gas markets. The NEM model of a central database has enabled the creation of several popular, privately-run, analytical applications. With modern database driven technology, AEMO's Gas Bulletin Board could also form the foundation for private sector analytical tools.

Establishing a technical working group to begin analysis on the potential simplification of the STTM design with the goal of transitioning these markets to a more focussed balancing market design

As discussed above, Stanwell does not support changes to the STTM market design without understanding how the proposed change fits into the AEMC's long term strategy for the gas markets.

Harmonising the start time of the "gas day" which currently varies across jurisdictions

Stanwell supports harmonising the start time of the "gas day". However, it is Stanwell's understanding that this would require a manual change at every meter. Accordingly, the proposal could be costly and time consuming to implement and so the change should be effective for a start date at some time in the future, say 5 years hence. While it would suit Stanwell to start the gas day at the current Queensland start time, it seems more reasonable to start the gas day based on the minimum cost of change. This is likely to occur where the minimum number of meters need to be changed. The time should be set using Australian Eastern Standard Time rather than Australian Eastern Daylight Savings Time.

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

Regards



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