



## Energy White Paper 2014 – Issues Paper submission template

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### Confidentiality

<input type="checkbox"/>	<b>Submissions may be published on the Department of Industry website. If you do not wish to have your submission made public, please tick the box.</b>
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Issues for comment are listed against each of the Chapter Headings. In making your submission, you are welcome to make comment against some or all of issues in the fields provided. A field for general comments is provided at the end of the template.

## 1. The Security of Energy Supplies

The Government seeks comment on:

- ways community expectations can be better understood and reflected in reliability standards;
- the value of developing fuel reserves to meet Australia's international oil security obligations, and augment domestic security;
- ways to increase new gas sources to meet demand and measures to enhance transparency in market conditions; and
- issues relating to the regulation of energy infrastructure.

Please provide any comments on The Security of Energy Supplies below:

### ***Concern about AEMO proposals which reduce the security of electricity supply***

Stanwell supports the Government's desire to ensure the security of Australia's energy supplies. Electricity is a vital input into all industries and essential to fostering an orderly society. Electricity blackouts have immediate and long term economic and social consequences.

AEMO is responsible for running the System Restart Ancillary Services (SRAS) program which is used to restart the electricity network in the event of a supply disruption. Stanwell is concerned about changes AEMO have proposed to this program which would increase the risk of longer blackouts. One of the changes AEMO have proposed is to use the SRAS program to restart only one NEM region (typically a State) rather than the whole NEM. This means that if a NEM wide blackout were to occur, the SRAS program could not be relied upon to restore power in a timely manner. A NEM wide blackout has never occurred, and is unlikely, however if it did eventuate, the economic and social consequences could be severe.

### ***Relationship between Energy & Water Policy***

Stanwell notes that the White Paper does not make reference to the important and interdependent relationship between Energy & Water Policy. Internationally, this relationship has been highlighted as a significant consideration in the development of policy and the security of energy supplies.

International Energy Agency's (IEA) World Energy Outlook 2012 noted:

"Water is growing in importance as a criterion for assessing the viability of energy projects, as population and economic growth intensify competition for water resources. In some regions, water constraints are already affecting the reliability of existing operations and they will increasingly impose additional costs. In some cases, they could threaten the viability of projects. The vulnerability of the energy sector to water constraints is widely spread geographically, affecting, among others, shale gas development and power generation in parts of China and the United States, the operation of India's highly water-intensive fleet of power plants, Canadian oil sands production and the maintenance of oil-field pressures in Iraq. Managing the energy sector's water vulnerabilities will require deployment of better technology and greater integration of energy and water policies."

Stanwell recommends the Government acknowledge the importance of the interdependence between energy and water policy and require specific consideration of this interdependence in the planning process for future energy and water projects.

## 2. Regulatory Reform and Role of Government

The Government seeks comment on:

- priority issues, barriers or gaps within the COAG energy market reform agenda;
- possible approaches and impacts of review of tariff structures including fixed network costs, further time-of-use based electricity tariffs and the use of smart meters;
- possible measures to promote greater price transparency in gas markets; and
- areas where further privatisation of government-owned assets would contribute to more effective regulatory frameworks and better outcomes for consumers.

Please provide any comments on Regulatory Reform and Role of Government below:

### ***Regulatory reform and the role of Government***

Stanwell supports the Energy Market Reform Principles identified as part of the 2012 Federal Government White Paper:

- Energy markets and services should deliver outcomes that are in the long-term interests of consumers.
- Energy market regulation should be nationally consistent to the greatest extent practicable.
- Energy market design should not give preference to particular technologies or fuel types.
- Market regulation should be stable, predictable, efficient, effective, transparent and accountable.
- Energy markets should interface efficiently and effectively with other relevant markets and policy and regulatory frameworks to provide for integrated least-cost decision-making.
- Government participation in energy markets should be minimised; where it does occur, it should preserve market integrity and comply with competitive neutrality policy.

Stanwell believes these energy market reform principles should guide the Government in its consideration of its energy market involvement.

### ***Energy Market Bodies acting outside their mandates***

Stanwell welcomes the Standing Council on Energy and Resources' (SCER) intention to review the governance arrangements of the AEMC, AER and AEMO. It has been Stanwell's experience that these bodies are exerting influence in areas outside of their field of expertise and are acting outside of their mandates. This contributes to regulatory uncertainty and diverts industry resources away from core business activities. The following examples illustrate this point:

- The AEMC is reviewing the *financial* interdependency and resilience of participants in the NEM and have been proposing changes to the way participants manage financial risk. Financial risk is not the AEMC's area of expertise and this is evidenced by their impractical and inappropriate proposals such as a Risk Management Code of Practice. Stanwell contributed to the NGF's submission on this issue.
- AEMO has been undertaking the work of the Reliability Panel in determining what is an acceptable cost for a major supply interruption and an appropriate cost of procuring System Restart Ancillary Services (SRAS). These high level decisions which have the potential for economy wide consequences are not the role of the Market Operator.
- AEMO and AER have been increasingly involved in regulatory and policy matters such as through the Transmission Frameworks Review and the Major Energy Users Rule Change proposal.

### ***Regulatory burden and uncertainty through ongoing reviews***

Stanwell requests that the Government investigate and prioritise the work agenda of the AEMC and SCER. There appear to be an ever increasing number of reviews and proposals which are time consuming and expensive for industry to continue to engage in. Over the last 15 years, the NEM has proven robust and the market framework has facilitated significant private investment. Given this success, there should be little need for ongoing reviews or change.

Many reviews also appear to begin without any clearly developed case for change and then continue through various stages of proposals in a seemingly indefinite manner. An example of an AEMC review without a clearly developed case for change, which is still ongoing after several years is the Transmission Frameworks Review. Ongoing, unnecessary reviews are costly, time consuming and create business uncertainty.

#### **Regulation of gas pipelines and nodal points**

Stanwell's interest in the gas market is as an industrial buyer and trader of gas for the gas-fired Swanbank E and Mica Creek power stations. The existing regulatory environment for gas pipelines does not provide enough flexibility to promote an active, transparent and liquid short term gas market. For example, users are often charged excessive fees for intraday nominations. Although such fees are a commercial decision by pipeline owners, if the regulatory environment rewarded the pipeline owners for their involvement in trading markets, fees which limit gas trading could be reduced. The market requires a regulatory framework that provides for maximum short term trading flexibility.

In addition, gas pipeline regulatory access arrangements allow users to reserve sizable portions of capacity with little or no penalties for not using their reservation. This reduces the capacity which is available to smaller and new entrant users. Although Stanwell welcomes proposals to introduce pipeline capacity trading, smaller users will continue to be disadvantaged if larger users with unused capacity do not participate in the capacity trading market.

Stanwell recommends a review of the regulatory framework for pipelines and nodal points to ensure they provide the right incentives for the efficient allocation of capacity and enough flexibility to promote an active short term market.

### **3. Growth and Investment**

The Government seeks comment on:

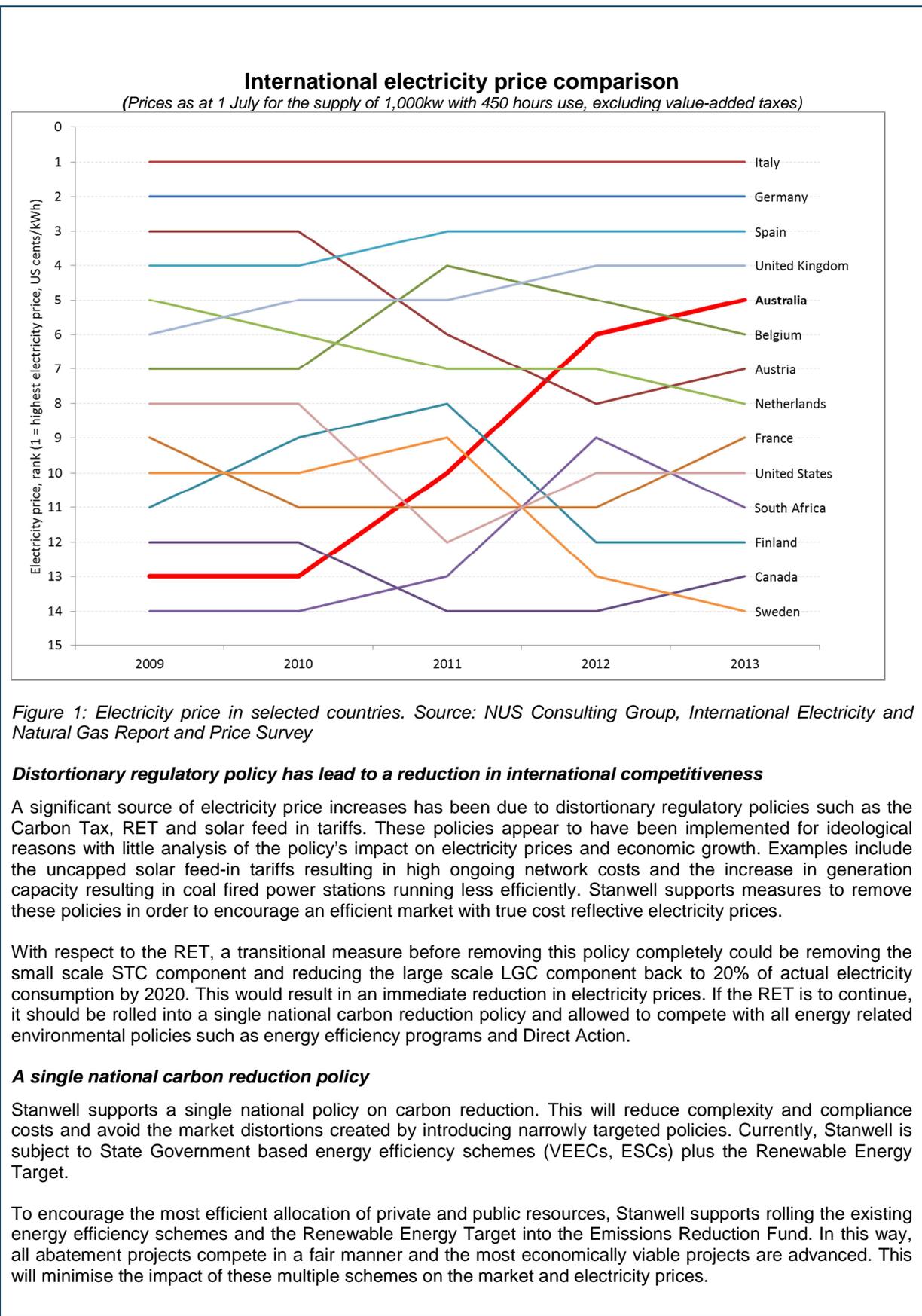
- commercial or market *initiatives that could enhance* growth and investment in the energy and resources sectors;
- areas where approvals processes could be further streamlined while maintaining proper environmental and social safeguards;
- further ways that regulatory burdens could be reduced while maintaining appropriate levels of disclosure and transparency in energy markets; and
- the impacts of variable land access policy and ways the community could be better informed and engaged on development in the energy sector.

**Please provide any comments on Growth and Investment below:**

#### ***The relationship between low cost energy and economic growth***

Stanwell is pleased to note that, through the Issues Paper, the Government appears to understand the important relationship between low cost energy and economic growth. Historically, Australia has been a source of low cost electricity because of Australia's abundance of low cost coal. Now, because of distortionary regulatory policy, Australian electricity is becoming relatively more expensive compared to international competitors. This is to the detriment of economic growth and Australia's international competitiveness.

Figure 1 shows the relative cost of electricity in a selection of countries. The chart shows Australia slipping from the 13<sup>th</sup> most expensive country to purchase electricity to the 5<sup>th</sup> most expensive country in just 4 years. The increase in electricity cost relative to competitors has had a significant affect on Australian industry.



***Retrospective Carbon Tax repeal is achievable and preferable for consumers***

Stanwell supports repeal of the Carbon Tax on 1 July 2014. The Carbon Tax has added to electricity prices and contributed to Australia's reduction in international competitiveness. If the Carbon Tax Repeal cannot be passed before 1 July 2014, Stanwell supports retrospective repeal of the Carbon Tax. Although retrospective repeal will cause some complexities in unwinding the Carbon Tax, these complexities can be overcome and are no more than those that arose when the Carbon Tax was first introduced.

***Direct Action - Stanwell is an experienced carbon abatement buyer and keen to provide advice***

Stanwell supports the Direct Action policy as outlined in the Green Paper as it procures least cost carbon abatement throughout the economy rather than adding to electricity prices through an unavoidable tax. Stanwell is an active participant in the Carbon Farming Initiative (CFI) market and acquired nearly 5% of its liability in CFI permits in the first year of the carbon tax. Stanwell, as Australia's second largest buyer of abatement, is keen to share its experience with the Government to enable the Government to design an Emissions Reduction Fund most likely to secure large scale abatement.

***Direct Action - The Safeguard mechanism must not turn into a baseline and credit scheme***

Regarding the Safeguard mechanism, Stanwell is anxious that this not turn into a baseline and credit trading scheme. Similar to the carbon tax, a baseline and credit trading scheme will target the electricity sector and lead to an increase in electricity prices. The Safeguard mechanism must also not prohibit increases in electricity generation due to economic growth.

***Retain key electricity loads in order to recoup sunk network costs***

The Government must understand the importance of retaining key electricity loads (especially aluminium smelters) in order to recoup sunk network costs. When electricity consumption declines, the remaining customers pay an increasing portion of their bill in network charges. Sunk network costs are best recouped over the largest possible electricity load.

***Reduce barriers to entry by developing efficient AEMO Prudential requirements***

Stanwell is involved in three markets operated by AEMO - the electricity market, Brisbane gas STTM and the Wallumbilla gas hub. Each of these markets have their own prudential requirements. Currently, a participant's prudential exposure to AEMO in each of the markets cannot be netted across the other markets. This leads to increased cost and a potential barrier to entry to new and small participants. Stanwell suggests AEMO conduct a review to determine the feasibility of prudential netting across all AEMO markets.

## 4. Trade and International Relations

The Government seeks comment on:

- how to grow the export of value-added energy products and services;
- ways to remove unnecessary barriers to continued foreign investment in Australia's energy sector;
- ways to strengthen support for access to export markets; and
- ways to support business to maximise export opportunities for Australia's energy commodities, products, technologies and services, including the value of Australia's participation in the variety of international forums.

**Please provide any comments on Trade and International Relations below:**

### ***Australian Coal to Liquids opportunity***

Stanwell supports the Government's desire to grow the export of value-added energy products and services. Australia has abundant low grade coal which is suitable for conversion into high value end products such as petrol and diesel. This could be achieved with proven Coal to Liquids (CTL) technology. Stanwell encourages the Government develop a vision for this industry and support it with the correct policy settings.

## 5. Workforce Productivity

The Government seeks comment on:

- the nature of any current skills shortages being experienced and how these could be addressed by and with industry;
- the capacity of industry and education sector-led programs to meet long-term training and skills development needs of the energy and resources sectors; and
- specific long-term training and skills development needs for alternative transport fuel, renewable energy, energy management and other clean energy industries.

**Please provide any comments on Workforce Productivity below:**

## 6. Driving Energy Productivity

The Government seeks comment on:

- the current suite of energy efficiency measures, ways these could be enhanced to provide greater energy efficiency or possible new measures that would enhance energy productivity;
- the use of demand-side participation measures to encourage energy productivity and reduce peak energy use; and
- measures to increase energy use efficiency in the transport sector.

Please provide any comments on Driving Energy Productivity below:

### ***Concerns on AEMO Demand Response Mechanism proposal***

Stanwell supports appropriate measures to encourage demand response such as providing customers with greater information on their energy consumption and encouraging tailored retail contracts for large electricity users. However, Stanwell, as well as the broader electricity industry, does not support the proposal developed by AEMO known as the Demand Response Mechanism (DRM). This proposal involves a significant and complex change to the operation of the wholesale market.

On behalf of the Energy Retailers Association, Private Generators Group and National Generators Forum, the consulting firm Seed Advisory modelled the benefits and costs of the proposed DRM. Seed Advisory's analysis showed that there are negative net benefits of between -\$22 million and -\$72 million from the proposed DRM. Given the results of this modelling, AEMO must provide sufficient justification to continue work on this proposal.

## 7. Alternative and Emerging Energy Sources and Technology

The Government seeks comment on:

- ways to encourage a lower emissions energy supply that avoids market distortion or causes increased energy prices;
- the need to review existing network tariff structures in the face of rapidly growing deployment of grid-backed-up distributed energy systems, to ensure proper distribution of costs;
- additional cost-effective means, beyond current mandatory targets and grants, to encourage further development of renewable and other alternative energy sources and their effective integration within the wider energy market;
- how the uptake of high efficiency low emissions intensity electricity generation can be progressed;
- any barriers to increased uptake of LPG in private and commercial vehicles and CNG and LNG in the heavy vehicle fleet; and
- any barriers to the increased uptake of electric vehicles and advanced biofuels.

**Please provide any comments on Alternative and Emerging Energy Sources and Technology below:**

## General Comments

**Any further comments?**