



Stanwell Corporation Limited - ABN 37 078 848 674

Public Submission

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1. Executive summary

Thank you for the opportunity to provide feedback on the Market Making Requirements detailed in the NEM Consultation Paper (Consultation Paper).

This submission contains the views of Stanwell in relation to the Market Liquidity Obligation and should not be construed as being indicative of Queensland Government Policy.

Stanwell supports the introduction of a Market Liquidity Obligation (MLO) in the National Electricity Market and requests either the AEMC or ESB develop the proposal through further consultation. Stanwell believes that a Market Liquidity Obligation supports the National Electricity Objective by providing price transparency, liquidity and access to contracts for all participants, including new entrant retailers.

Rather than having the MLO apply only in response to reliability or liquidity needs, Stanwell suggests that new entrant retailers would benefit from a MLO that applies at all times, in all regions. Stanwell also believes that the maximum spread should be reduced from the 5% proposed and that the obligation should capture 4-5 large generators per region rather than 2-3 vertically integrated retailers as suggested.

Stanwell welcomes the opportunity to further discuss this submission. Please contact Jennifer Tarr on (07) 3228 4546.

2. The MLO should apply at all times and in all regions

As set out in previous submissions to the Energy Security Board (**ESB**),¹ Stanwell suggests that the MLO should apply in all regions in all years, regardless of whether there is a reliability gap (for the Reliability Requirement Trigger) or low levels of liquidity in the hedging market (for the Liquidity Test Trigger).

Stanwell agrees with the statement in section 2.4.2 of the Consultation Paper that an on-again, off-again MLO cycle would not address the underlying causes of the lack of liquidity and the resulting disruption may have a detrimental effect on contract prices in a region.

Implementing both a Reliability Requirement Trigger and a Liquidity Test Trigger will significantly increase the chances of the MLO being triggered and an on-again, off-again cycle being created. This may cause disruption to participants' hedging and trading operations as hedge limits will need to be adjusted to incorporate the obligation. In turn, this will impact upon retailer and customer hedging.

3. Design of the MLO

Stanwell suggests that the MLO commence three years in advance and cease two quarters in advance (ie operate over the period T-3 to T-0.5). This mechanism would give retailers and customers a reasonable period of time to enter into hedge contracts, while incentivising hedging in advance as intended by the NEG Reliability Obligation. Obligated participants would also have time to finalise their fuel and hedging position after the conclusion of the MLO. In addition, the six months prior to T is already the most liquid part of the forward curve.

Stanwell agrees with the proposals in the Consultation Paper that:

- The obligation should cover a centrally cleared, "firm" product (both swaps and caps are suitable). The choice of product should be up to the participant, provided it meets the centrally cleared and "firm" criteria;
- a volume of 5MW per side is appropriate; and
- the MLO should apply on each trading day (ie a business day).

However, Stanwell suggests that:

- the MLO should apply during both the first half-hour and the last half-hour of each trading day (rather than only the last half-hour of each day as suggested in the Consultation Paper). This is to increase the availability of contracts to new entrant retailers;
- The obligation should apply on contracts that cover the entire 3 year period (noting no compliance on the last six months). That is, the obligation could be met with yearly or quarterly contracts to cover the entire period (rather than only contracts to cover the period of the gap under the Reliability Obligation).
- The maximum obligated traded quantity per participant, per day is 10MW in all regions except for South Australia where, due to the small size of the market, the obligation is proposed to be 15MW per participant, per week. This is explained further in "Safeguards" below;
- bids and offers should be refreshed within two minutes of a trade; and
- the spread should be narrowed to:
 - o 3% for the period T-0.5 to T-1;
 - 4% for the period T-1 to T-2; and
 - \circ 5% for the period T-2 to T-3.

In particular, Stanwell believes that the spread can be narrowed from the current proposal of 5%. This is to improve access to contracts at appropriate prices. See Appendix A for further information on this proposal.

4. Defining obligated participants

Stanwell suggests that obligated participants be large generators (rather than vertically-integrated retailers as proposed in the consultation paper). This is best defined as a single legal entity, or a corporate group within which there is a single entity or several entities which (either alone or together):

¹ Available at

<http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/ documents/Stanwell%20Reliability%20Requirement%20Precondition%20Options.pdf>.

• is/are registered as a Generator or Intermediary by AEMO under the National Electricity Rules,²

Stanwell agrees with the suggested approach in section 3.1 of the Consultation Paper that:

• the ultimate holding company of the corporate group containing the generator registration may nominate a different entity within the group to be subject to the MLO obligations.

5. Selecting obligated participants

Stanwell generally supports determining the identity of obligated participants by reference to entities owning, controlling or operating a fixed percentage of all installed generation capacity in a region.³

However, Stanwell submits that:

- the generation threshold should be set at 5% (resulting in four or more obligated participants per region);
- the calculation of all installed generation capacity should account for:
 - all generation in a region, including semi-scheduled and nonscheduled generation (to account for a future where generators are mostly small, non-scheduled distributed resources); and
 - entities which have access to trading rights, including Power Purchase Agreements;
- The selection of generators should be based on the AER's State of the Energy Market Report which identifies any generator who holds trading rights for, or owns, power stations in the NEM. The use of this report is transparent and allows the calculation of obligated participants to be based on data which may be subjective or difficult to obtain for anyone but the

AER (trading rights). The use of forward looking approaches (such as MTPASA) are not required as Stanwell's proposal of no obligation in the six months prior to the start date of a contract allows time for obligated participants to close out any unwanted positions based on fuel and maintenance schedules; and

• The obligation is removed on all participants in a region if there are two or fewer obligated participants.

Using the AER's State of the Energy Market Report the obligated participants are shown below.



Notes:

Figure 1.20

Capacity is based on summer availability for January 2017, except wind, which is adjusted for an average contribution factor

Interconnector capacity is based on observed flows when the price differential between regions exceeds \$10 per MWh in favour of the importing region; the data excludes trading intervals in which counter flows were observed (that is, when electricity was imported from a high priced region into a lower priced region). Capacity that is subject to power purchase agreements is attributed to the party with control over output. Data sources: AEMO, AER,

² Rather than the suggestion in the Consultation Paper that an entity hold a generator licence. Stanwell notes that there is no requirement in NSW for generators to hold an additional generation licence in addition to registering with AEMO. This is in contrast to other states such as Queensland in which generators must hold a generation authority or special approval under the *Electricity Act 1994* (Qld) in addition to registering with AEMO.

Sections 3.2.2 and 3.3.1 of the Consultation Paper.

Queensland	New South Wales	Victoria	South Australia	
CS Energy	AGL Energy	AGL Energy	AGL Energy	
Stanwell	Origin	EnergyAustralia	Engie	
InterGen	Snowy Hydro	Snowy Hydro	Origin	
Origin	EnergyAustralia	Engie	EnergyAustralia	
Arrow Energy	Sunset Power	Origin		

6. Safeguards

Trading halts and release of market sensitive information

Stanwell agrees that obligated participants should be able to suspend their MLO obligations due to trading halts or the release of market sensitive information.

Changes to obligated participants

Stanwell broadly supports the ability of obligated participants to request that the AER review whether they continue to satisfy the criteria for inclusion. Stanwell suggests that appropriate limits be included on this ability (eg only within one month after a new power station is commissioned, mothballed or decommissioned in a region).

Alternatively, the AER be required to undertake regular reviews (eg annually and any time a new power station is commissioned, mothballed or decommissioned in a region) of which entities satisfy the criteria for inclusion.

Stanwell also suggests that:

- new obligated participants be given a one-year transition period before being subject to the MLO (in order to prepare their systems and processes);
- existing obligated participants that fall out of the inclusion criteria be immediately released from their MLO obligations; and
- where an obligated entity is transferred into a new corporate group, the new corporate group should become subject to the MLO immediately.

The fact that entities may drop out of the obligation (as in the case of the first two dot points above) underscores the importance of multiple obligated participants per region. This ensures that the remaining participants are not unnecessarily exposed to the obligation without the support of multiple other obligated parties. Multiple participants are required to manage unwanted positions entered into as part of the obligation. Stanwell proposes that the obligation is removed on all participants in a region when there are two or fewer obligated participants.

Daily/weekly volume limits

Stanwell considers that there should also be daily or weekly volume limits for obligated participants. Stanwell assessed various approaches to calculating the daily or weekly limit including linking the limit to the likely volume of contracts new entrant retailers require. However the required approach must result in standard (5MW) trade sizes as well as not be overly complex.

Stanwell's proposed approach is based on achieving potential contract market turnover of greater than 200% of peak demand, in each region. This results in a maximum obligated traded quantity per participant, per day of 10MW in all regions except for South Australia where, due to the small size of the market, the obligation is proposed to be 15MW per participant, per week. This results in an obligation of two standard sized trades per day (three per week for South Australia). The approach is illustrated in the table below.

	QLD	NSW	Vic	SA
2017/2018 peak demand (MW)	9,840	12,986	9,085	2,880
Number of obligated participants	5	5	5	4
Maximum obligation per day (per week for SA) (MW)	10	10	10	15
Number of trading days (weeks for SA)	625	625	625	125
Maximum possible sales under MLO	25,000	31,250	31,250	7,500
Turnover as a percentage of peak demand	318%	241%	344%	260%

7. Satisfying the MLO

Stanwell suggests that the MLO commence on the first trading day after 1 July 2019 and apply to contracts starting from 1 January 2020.

Stanwell submits that the MLO be implemented in a manner that enables obligated participants to meet their MLO obligations through involvement in the current ASX Market Making Incentive Scheme.⁴ This reduces the regulatory burden on both the obligated participant and the AER.

If an obligated participant is not participating in the ASX Market Making Incentive Scheme, then Stanwell agrees with the statement in section 5.2 of the Consultation paper that obliged entities should be required to keep a record of all relevant trading activities (eg the timing of bids and offers, the volume traded, the price, the refresh rate, evidence of trading halts etc) and that the AER be able to request this information.

The AER should only be able to use this information for the purposes of assessing and enforcing compliance with the MLO, not for any other purpose related to the AER's functions or powers. This broader use would be inconsistent with the purposes for which the records were maintained and provided to the AER (and opens the door to potential regulatory overreach by the AER with the effectively unlimited use of that information).

⁴ See < https://www.asx.com.au/products/market-maker-arrangements.htm>.

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Appendix A – Stanwell's spread proposal

Stanwell proposes that the maximum spread be tightened from the proposed 5% to

- 3% for the period T-0.5 to T-1;
- 4% for the period T-1 to T-2; and
- 5% for the period T-2 to T-3.

This is to enhance liquidity and access to contracts at appropriate prices. Stanwell's bid-offer spread proposal is mapped against the closing bid-offer spread of various Q1 contracts below.



Q1-17













16% T-3 to T-2 T-2 to T-1 T-1 to T-0.5 No obligation 14% 12% Bid-Offer spread (%) % % 01 % 01 4% 2% 0% Meensland 4/03/2017 4/05/2017 4/07/2017 4/03/2016 4/07/2016 4/01/2016 4/05/2016 4/01/2017 4/09/2017 4/11/2017 4/01/2018 4/03/2018 4/05/2018 4/07/2018 4/09/2018 4/09/2016 4/11/2016

Q1-19



Stanwell is following up with data provider re missing data in T-2 to T-1 period





