15 March 2013

Ms Shilpa Karri
Australian Energy Market Operator
GPO Box 2008
MELBOURNE VIC 4001

Dear Ms Karri

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to comment on the 2013 Planning Studies Consultation Paper prepared by the Australian Energy Market Operator (AEMO).

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 supports the work undertaken by AEMO to continuously improve its modelling methods, data and inputs, one aspect of which AEMO is consulting on as part of the 2013 planning studies. Stanwell's response to the specific questions identified in the Consultation Paper is set out below. Stanwell welcomes the opportunity to discuss any of the issues raised in this submission directly with AEMO.

2.2 Planning and Modelling Forum

Stanwell notes the proposal by AEMO to establish a Planning and Modelling Forum to coordinate the activities undertaken by a number of existing groups. In relation to possible topics for the forum, Stanwell recommends consideration is given to developing and disseminating accurate data on both solar photovoltaic and large scale demand side management. This modelling should incorporate both historic actual observations and forecasts. Stanwell notes that further details on this proposal will be released shortly. In particular, we look forward to the release of details around the frequency of meetings and membership of the Forum.

2.3 Energy Forecasting

Stanwell supports work by AEMO to develop a cohesive strategy for energy forecasting activities across the energy industry. Notwithstanding that further details are still to be developed by AEMO, Stanwell strongly supports the disaggregation of regional forecasts to at least the level of Transmission Network Service Provider sub-regions, and preferably to the Distribution Network Service Provider Transmission Node Identity level. More granular information (e.g. at connection point level) would also be helpful to assist stakeholders in developing bottom-up forecasts.

3. Input Modelling and Assumptions

Stanwell has undertaken a preliminary examination of the planning documents that have been released by AEMO as part of this consultation process. Stanwell provides the following feedback on the input modelling assumptions:

Carbon Price

Further clarification is sought on carbon pricing assumptions. Under each price path carbon prices are held constant at $23.00/tonne in the first three years, despite there being legislated pricing until 2014/15. Also, the 'No Price' case actually has a $2.00/tonne price throughout the modelling period. It is unclear why carbon price would not move to zero to reflect successful repeal of the legislation.

Finally, the 'High' case transitions to $48.00/tonne in 2015-16 and then grows relatively aggressively beyond this point. This case forms part of Scenario 1 (fast rate of change) which suggests that strong economic growth is associated with a higher carbon price. This may require further explanation.

Green Power

It is unclear as to why Green Power is falling in Scenario 1. In the event that there is a high gas price, high carbon price, and high emissions reduction target, the expectation would be that there is an even greater drive towards additional renewable investment.

Research and Development Support

Stanwell seeks clarification about the rationale behind moderate R&D support under Scenario 5. It is unclear why an environment of low coal price, low gas price and no reduction target would provide the necessary incentives to invest in innovation at a moderate level rather than at a weak level.

Geothermal Generation

What is the rationale behind the inclusion of geothermal generation in the current modelling? Is there sufficient certainty around such generation for its inclusion?

Wind

What assumptions are made surrounding wind in Queensland?

New entrant fuel price

The new entrant fuel price grows strongly across the modelling period in all scenarios. Does this assume that the international Liquefied Natural Gas (LNG) market moves in a similar manner (i.e. uncapped increases)?

3.1 NEM Power Station Emission Factors

Stanwell notes the proposal by AEMO to publish an updated set of emissions factors on its website. In the event that this data is made public, and there are significant differences between such data and the CDEII, what are the implications for the CDEII and anything that has referenced or continues to reference this index?

3.2 Changes to Electricity Supply-Demand Outlook Modelling

AEMO is seeking feedback on the continued relevance of the Supply Demand Calculator. Stanwell considers the Supply Demand Calculator to be a valuable analysis tool, and therefore does not support its removal. Stanwell would like AEMO to ensure that any differences between the maximum demands used in the calculator and those quoted in the ESOO are appropriately explained. While we note AEMO is changing its approach to determining reserve levels and the calculator was designed to accompany the previous methodology, it remains a useful information tool, as long as users are aware of these changes.

4.1.1 Integrating Short-Term and Long-Term Planning

Stanwell supports consideration of short and medium term planning by AEMO, and an examination of how such plans could link to long-term strategic plans. To that end, Stanwell recommends that consideration be given to a mix of planning durations at different resolutions. As an example, AEMO could develop a more in-depth 3 to 5 year study blended with a more averaged 5 plus year view.

4.2.1 Demand Forecasts

None of the scenarios proposed appear to fit within a 'business as usual' type case. Stanwell recommends that consideration be given to developing a BAU case. On a related matter, some of the scenarios do not appear to hang together very well – further work needs to be done to ensure scenarios are internally consistent and intuitive.

4.2.2 Gas Fuel Prices

Stanwell is supportive of further analysis of the potential impact of changes in forecast gas prices, and therefore supports the proposal by AEMO to undertake a sensitivity study using a lower gas fuel price. It would be beneficial if AEMO could provide some clarity around some of the assumptions in the modelling such as new entrants and future gas prices. In particular, we seek clarity around the assumptions made for LNG (e.g. does the modelling assume a net-back parity?) and any assumptions about price floors and ceilings.

4.2.3 Carbon Prices

In terms of the price paths identified in the initial modelling, there appears to be some inconsistencies in terms of forecast carbon prices beyond the fixed price period. Stanwell would appreciate some further advice from AEMO regarding the rationale that underpins the carbon price path assumption.

If you wish to discuss any of these issues further please do not hesitate to contact me on (07) 3228 4352 or Mr Peter Tolhurst, Market Regulation Advisor, on (07) 3228 4163.

Yours sincerely

Tanya Mills
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