25 September 2014

Ms Anne Pearson
Australian Energy Markets Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Submitted vie AEMC website – EMO0024

Dear Anne

Thank you for the opportunity to respond to the NEM Financial Market Resilience Second Interim Report. As you will be aware, Stanwell has been an active member of the working group throughout this project and as such we expect that our views are likely to be well known by the Commission. Accordingly much of this response is deliberately brief. If you would like to discuss any aspect of this submission, please contact Luke Van Boeckel, Manager Regulatory Strategy on 07 3228 4529.

Stanwell broadly supports the AEMC proposal to reform the ROLR scheme

Stanwell agrees with the AEMC assessment that the Retailer of Last Resort (ROLR) scheme represents the greatest potential threat to NEM financial stability[1]. We also consider that the proposed changes are likely to provide significant mitigation of this risk.

We wish to re-state our position that the threat of disconnection should not be seen as a desirable motivator. Both the market and the consumers should be attempting to ensure that customers remain connected and with continuous "valuable power consumption"[2] in order to minimise the impact of a RoLR event, whereas forcing disconnection of customers who are willing and able to pay for their consumption is likely to extend the risk of financial contagion beyond the scope of the electricity market.

We support the proposal to change credit support requirements to AEMO and DNSPs for the ROLR. We consider that the proposal strikes a beneficial balance between reducing contagion risk and maintaining prudential protection for the market.

We support the intent to provide the ROLR with greater clarity and confidence in relation to cost recovery. Such action is the most likely avenue to increase the number of RoLRs which in turn should decrease the impact of a RoLR event.

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[1] AEMC 2nd interim report, page 127 ROLR is "...the key channel where contagion is most likely to be transmitted in the NEM"

[2] Frontier Economics, *Policy responses to mitigate the risk of financial contagion in the NEM*, July 2014, page 8

We support the proposal to allow the AER a small amount of additional time for the appointment of ROLRs after an event.
We broadly support the proposal to have very large customers nominate a ROLR rather than relying on the automatic processes. In addition to the concern indicated above in relation to the threat of disconnection, Stanwell believe that the specific implementation is likely to benefit from some refinement:

- as an initial step to implementation, Stanwell would support a higher consumption threshold (ie less customers) than proposed by the commission which could be decreased over time as the stability of the arrangements is determined;
- we believe there is likely to be greatest benefit where such customers nominate a ROLR in advance, rather than waiting until after an event. Accordingly, measures to encourage such early nomination should be investigated. In conjunction with the staged implementation suggested above, it may be possible to *require* such nominations as they are only likely to apply to customers with sophisticated electricity procurement processes; and
- we also consider that there is likely to be significantly greater benefit where the nominated ROLR is required to not be the default/designated ROLR under the automatic scheme. We note that this may risk dis-incentivising retailers from becoming a default ROLR, so careful consideration would be necessary.

Stanwell also welcome the Commissions' decision not to recommend distortionary measures such as a temporary price cap or partial deferred settlement.

Stanwell welcomes the AEMC conclusion regarding the G20 reforms, risk management and transparency measures

Stanwell agree that "*It would be inappropriate to assume that risk management practices can be solely relied on, or expected, to eliminate all risk to financial system stability in the NEM.*"[3]

We do however consider that such practices, in conjunction with the existing external requirements identified in the 2nd interim report, have a track record of providing effective mitigation for the vast majority of risks in a wide range of circumstances. Accordingly, Stanwell maintain that additional requirements are highly unlikely to provide sufficient benefit (if any) to justify the costs associated with their implementation.

We are pleased that the Commission has also reached this conclusion.

Stanwell support allowing for participants in external administration to continue to operate in the NEM

While not advocating blanket application of such a provision, Stanwell agrees that there are likely to be benefits in some circumstances, such as the continued operation of generation assets owned by a suspended retailer.

Stanwell do not support the creation of a NEM Resilience Council

While acknowledging that the Commission has identified the possibility that separate bodies may make inconsistent decisions in relation to a NEM participant, Stanwell do not support the creation of a NEM Resilience Council or the concentration of decision making at a single point.

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[3] AEMC 2nd interim report, page 33

We believe that such action may risk the independence of the relevant bodies and may inhibit their ability to carry out their core function.

The cause of a large retailer (SIMP) failure is likely to be complex and relatively short-notice, and may very well originate outside the NEM. In such circumstances, having regulatory bodies bound to consider the stability of the NEM as their primary driver in decision making may do more harm than good.

Stanwell do not support the designation of SIMPs

Stanwell do not support the proposal to designate some entities as Systemically Important Market Participants (SIMPs), and particularly do not support the proposal to treat such entities differently than smaller entities.

We consider that such action risks establishing certain entities as "Too Big To Fail" and introduces moral hazard. We also repeat previous views that in such an event, the people best placed to determine a course of action are those most intimately involved – that is the participants and standard regulators.

Stanwell do not support separate "stability arrangements" for SIMPs

Stanwell opposes the establishment of such a regime on the same basis that we opposed the Commission's earlier proposal for a "Special Administration Regime". We believe that such a regime would cut across existing risk management principles and has the potential to undermine confidence in existing contract market arrangements.

Thank you for your consideration of Stanwell's response to the 2nd Interim Report.

Yours sincerely

T. Mills

Tanya Mills
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