stanwell

22 March 2024

Johanna O'Rourke

Office of General Counsel
ASX Limited
20 Bridge Street
Sydney NSW 2000

Submitted electronically to email: commodities@asx.com.au

Dear Ms O'Rourke

**Consultation Paper: ASX Australian Peak Load Electricity Futures Contract Changes**

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to respond to the Australian Securities Exchange Ltd (ASX) 7 February 2024 Consultation Paper on Peak Load Electricity Futures Contract Changes.

As a major provider of electricity to Queensland, the National Electricity Market (NEM) and large energy users throughout Australia, Stanwell is invested in providing reliable and affordable energy for today and into the future.

To support State and Commonwealth Government emissions reduction targets, and in recognition of the changes that will need to occur in the energy market to achieve these targets, we are currently developing renewable energy, storage, and hydrogen projects and technologies within Queensland to support the transition to more renewable energy and help to ensure Queensland electricity supply remains secure and reliable now and into the future.

This submission contains the views of Stanwell and should not be construed as being indicative or representative of the views or policy of the Queensland Government.

Stanwell acknowledges the work of the ASX in preparing the Consultation Paper and we appreciate the ASX consulting with Market Participants on the proposed change. We thank the ASX for the opportunity to provide feedback in response to the ASX's recommended adaptation of the Australian Peak Load Electricity Futures Contract (Peak Load Futures Contract) structure.

Overall, Stanwell supports the ASX's recommendation to change the definition of the peak load profile in favour of Option 1 (Evening Period) and suggests one minor modification to the proposed option.

***Fit for purpose and changing demand***

The Peak Load Futures Contract was listed at a time of limited rooftop solar when peak demand facilitated higher usage during a weekday and evening period. Since then, ever increasing amounts of rooftop solar saturation, particularly in Queensland, have significantly impacted demand, resulting in a change in the NEM operational demand profile and 'peak' demand period.

This in turn has reduced the benefits of Peak Load Futures Contracts as a hedging tool for price volatility during times of high price exposure to the NEM, subsequently increasing the exposure of market participants to higher risk during periods of high operational demand i.e. during the evening peak period.

The 'material change' to the energy generation mix and operational demand profile in the NEM has resulted in a decline in the performance of Peak Load Futures Contracts over time with the market reporting a reduction in the usefulness of the Contract as a hedging tool.[1]

With Peak Load Futures Contracts offering limited hedging protection, market participants may enter bespoke negotiations, trading in more complex products to cover their risk exposure, that do not offer the same level of liquidity or transparency to the market.

***Stanwell supports Option 1***

In response to the changing demand in the NEM, the ASX has proposed adjusting the peak periods for the invoicing of physical deliveries of electricity to either:

- Option 1: an evening peak period of between 4:00 PM and 8:00 PM AEST inclusive, Monday to Sunday, or
- Option 2: a morning period between 6:00 AM and 9:00 AM AEST inclusive Monday to Sunday in addition to an evening peak period of between 4:00 PM and 8:00 PM AEST inclusive, Monday to Sunday.

Stanwell supports Option 1 (with a minor modification to the timeframe window), as in our view, Option 1 better aligns with the various new peak definitions being offered by electricity retailers and network operators.

By comparison, Option 2 would result in energy-constrained generation (such as hydro, gas / liquid fuel, and batteries) being restricted in the number of contracts they could sell due to the readiness requirement to generate at the contracted level for up to seven hours per day as proposed, instead of four hours as proposed under Option 1.

In Stanwell's view, expanding the Peak Load Contract to the morning would defeat the purpose of having a contract in place for the time of day providing the highest demand and spot prices. Additionally, Stanwell notes that typical new "Peak" definitions offered by NEM electricity retailers and distribution network service providers only cover the evening and do not cover mornings thereby further supporting our preference for Option 1.

As outlined in the ASX's Consultation Paper, the continuing installation of rooftop solar generators has shifted mainland NEM demand and prices to a distinct peak in the evening seven days a week, 365 days a year – a period not currently covered by the existing Peak Load Futures Contract product.

Stanwell is also supportive of the proposed change from a five-day, weekday contracting period, to a seven-day a week contracting period (covering all days including public holidays). In our view the extension from five days to seven supports evening demand on non-workdays which we note can be extremely high.

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[1] ASX Australia Peak Load Electricity Futures Contract Changes Consultation Paper p. 5.

Additionally, the change to a seven-day contract will support improved efficiencies, simplicity, and accuracy as market participants will no longer have to account for weekends and public holidays that made the current Peak definition difficult to work with. From a contract hedging and risk perspective this would better cover customers actual load profile.

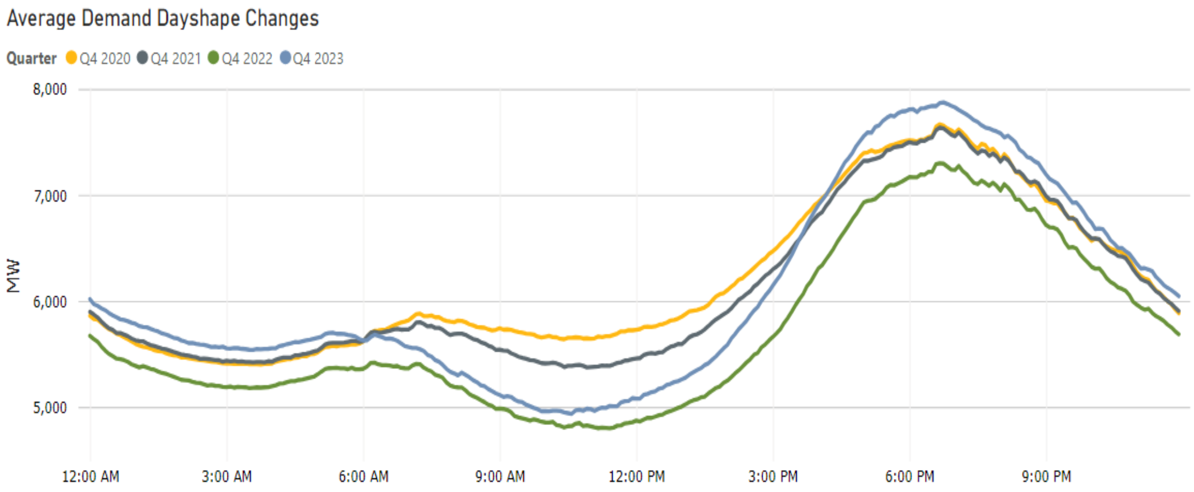
***Minor modification to Option 1***

Under the current 7:00AM – 10:00PM weekday Peak Load Futures Contract there is little liquidity, transparency, or benefits to the electricity grid, as evidenced by the decline in the use of the Peak Load Futures Contract product as a hedging tool for price volatility during times of high price exposure.

Option 1 proposes an evening peak timeframe window between 4:00PM – 8:00PM AEST time to cover the peak evening operational demand period seven days a week.

To better facilitate the increase of renewable generation in particular rooftop solar in the NEM, we instead suggest adjusting the evening peak timeframe window to between 5:00PM – 9:00PM NEM time seven days a week.

Below is an example of the Queensland "Duck Curve" Average Demand which shows in particular the changing morning / afternoon shape due to increased penetration of solar in Queensland for Q4 from 2020 to 2023.




In our view an adjusted approach to Option 1 would better coincide with the load profile and capture a greater proportion of NEM operational demand. In turn, the proposed change to 5:00PM – 9:00PM NEM time would better position market participants to hedge price volatility across a time period when rooftop solar would be inactive, but electricity usage would still be high.

We believe this adjusted approach assists with liquidity in the market and better supports the case for a future renewable portfolio including providing incentives for batteries to enter the market by encouraging consumers to use load outside the evening peak period, which in turn reduces operational demand pressure on the grid during that time.

**Conclusion**

Stanwell supports the ASX's proposal for an evening peak (Option 1) with a minor modification to the peak definition timeframe window. We believe this approach will better support the progress of renewable portfolios, assist with liquidity in the market, and reduce load and operational demand pressure on the gird during the evening peak period.

While Option 1 presents a solution for the immediate timeframe, Stanwell suggests a more pragmatic approach that would see benefits for future iterations of the Peak Load Futures Contract to help ensure it can pivot accounting for future movements and changes to the energy mix and profile of the NEM.

In our view we see this as providing benefits to help ensure the Peak Load Futures Contract continues to remain an effective hedging tool, not just in Queensland but across all jurisdictions across the NEM.

Stanwell welcomes the opportunity to further discuss the matters outlined in this submission with the ASX. Please refer any questions to Lya McTaggart by email at lya.mctaggart@stanwell.com.

Yours sincerely

**Ian Chapman**
***Manager Market Policy and Regulatory Strategy***