

2 August 2024

Kirstan Long
Director
Office of the Tasmanian Economic Regulator
By email: office@economicregulator.tas.gov.au

→ Dear Ms. Long

Review of the Approach to Regulating Retail Electricity Prices

Solstice Energy Retail Pty Ltd (“SER”) welcomes the opportunity to provide feedback to the Office of the Tasmanian Economic Regulator (“Regulator”) on the review of the approach to regulating retail electricity prices (“draft methodology”) in Tasmania.

I preface the below feedback by noting that the lowest energy cost to consumers in Tasmania will only be achieved by a competitive retail market. The retail electricity prices, set through the standing offer along with the Wholesale Contract Regulatory Instrument (“WCRI”), are crucial in ensuring the risk-reward ratio for retailers remains balanced.

SER generally supports the Regulator’s proposals in the draft methodology. We do however have feedback on certain components of the draft methodology for the Regulator’s consideration.

Calculation of the wholesale electricity price (WEP)

It is SERs strong preference that any changes to the WEP are only applied in Year 2 (the period commencing 1 July 2026). Due to the averaging nature of how the WEP is currently set, any changes made to the WEP setting methodology will have an adverse impact on the management of hedging risks of retailers for the period starting 1 July 2025, which would effectively have been hedged assuming the 2022 Standing Offer Price Determination as the basis of setting the WEP up until now.

SER supports the adoption of the ‘no future price method’ described in section 3.5 of the draft methodology, in order to reduce reliance on a forecast whilst calculating the WEP and our observations below that demonstrate May as a more market relevant period to do this calculation.

Marginal Loss Factors (MLF) are only available in late May/early June for the following year. To reduce reliance on forecasts, it may be prudent to maintain the current timing of the WEP calculation. The Tasmanian contract prices set in accordance with the WCRI have been known to have a lagged effect to the Victorian contract market in recent years. SER suggests a further review is conducted to determine the extent of this lagged effect as it is our belief that setting the WEP in May, in effect uses Victorian prices from late April.

Treatment of costs related to Basslink

In recognition that the process for proposed Basslink regulation is still ongoing and that the AER's consultation in May 2024 published updated timelines, we note that AER's final decision on Basslink regulation is proposed by 28 February 2025. As this is after the Regulator's intended release for the draft price determination on 21 February 2025, SER recommend that the AER determination be factored into the draft methodology.

Once the AER's decision is known, it would be beneficial for the Regulator to consult on any modelled impact of the decision on the draft methodology. SER has an interest in exploring further:

- how the Regulator proposes to split cost of Basslink between the various customer segments to ensure the cost burden is spread equitably between the small, medium and large segment customers; and
- how the Regulator intends to include any significant changes to the Basslink cost allocation within the approved 2025-26 price determination, should these changes become known after the pricing proposal for 2025-26 has been finalised.

Length of regulatory period

SER is supportive of a shorter regulatory period of 3-years. This allows the rapidly evolving energy market and infrastructure development to be better considered with shorter review periods.

SER would be happy to further discuss this feedback with the Regulator. Please contact Georgia Newland, Compliance Manager at Georgia.Newland@solsticeenergy.com.au for any questions and further information.

SER appreciate the review conducted by the Regulator and look forward to continued engagement on the matter.

Yours sincerely



Sarah Thurstans
General Manager Retail