5 August 2024

Mr Joe Dimasi
Regulator
Office of the Tasmanian Economic Regulator

Submitted via email to office@economicregulator.tas.gov.au

Dear Mr Dimasi,

Review of the approach to regulating retail electricity prices – Draft Methodology Paper

Hydro Tasmania welcomes the opportunity to comment on the Tasmanian Economic Regulator's (the Regulator) Draft Methodology Paper as a part of the Review of the Approach to Regulating Retail Electricity Prices. This review process provides a valuable opportunity to consider if the current building blocks approach is appropriate.

3.3 Timing of the WEP calculation

The Regulator is seeking comments from stakeholders on the three methods analysed and any other, alternative methods, for calculating the WEP.

The Draft Report outlines three possible approaches to calculating the WEP which are:

1. May calculation (status quo)
2. April calculation
3. No future price method.

Our understanding is that the existing wholesale energy price (WEP) methodology seeks to reflect the expected contracting behaviour of retailers managing their contract book for regulated customers in Tasmania. In establishing the WEP methodology it was assumed that retailers would seek to build their contract book over a two-year period. This approach is reflected in the Standing Offer Guidelines where the WEP is based on a calculation of weekly load following swap price 'for eight quarter preceding the start of each quarter of the relevant year' (Section 4.1(1)(a)).

The Guidelines also states that for "all future weeks for which there is no regulated LFS price at the time that the Regulator calculates the WEP, use the respected weekly point in time regulated LFS price. Essentially the Guideline assumes a WEP price in future quarters based on the load following swap prices as published at the end of May. The application of the Guideline therefore includes prices in the WEP which are not reflective of market outcomes as these forward contracts have not been offered to the market yet.

Of the three options being considered, Hydro Tasmania supports maintaining Option 1 of a May calculation approach. The status quo best reflects the original intent of the WEP pricing approach and retailers interaction with the WCRI. More broadly maintaining the status quo also provides certainty to market participants. While the forward-looking assumptions used in the current approach are not reflective of market outcomes, the 24-month averaging period produces a smoother price path between years. This smoother price path has the advantage of reducing any potential 'bill shock' for consumers that may emerge as a result of market volatility.

The existing pricing approach (Option 1) is recognised in the market and is used by participants as guidance in the strategies that they take to cover their load. **Hydro Tasmania does not support Option 2 of moving to an April calculation period** as this would be a departure from the existing market settings without any clear benefit being identified. Further work would be needed to clarify why moving to Option 2 would provide overall benefits compared to the status quo.

In considering Option 3, Hydro Tasmania questions if the 2-year averaging period remains appropriate and reflective of the broader market. For example, a 1-year averaging period is applied in calculating the wholesale energy price in the Victorian Default Offer (VDO). Retailers in other states may have shortened their contracting approach and therefore the 2-year averaging approach in Tasmania may no longer appropriate. **Hydro Tasmania suggests that it may be useful to explore the adoption of a 1-year averaging approach**, especially in light of some of the draw backs of using an assumed price for some forward quarters.

4.4 Treatment of costs relating to Basslink

The Regulator is seeking comments from stakeholders on the treatment of costs relating to Basslink and the proportion of these regulated network costs that should be passed through to regulated customers.

The Australian Energy Regulator (AER) is currently assessing APA Group's application to convert Basslink from a market network service provider to a prescribed (or regulated) transmission asset. The regulatory process will review Basslink's revenue proposal including APA's proposed starting regulatory asset base and forecast expenditures. The conversion process requires the AER to consider whether the benefits of regulation outweigh the potential costs to consumers. If Basslink becomes a regulated transmission asset, Tasmanian customers' share of Basslink's costs will be determined by the AER through this regulatory process and the associated transmission determination. The AER notes, "Once classified as prescribed services Basslink would be regulated like any other TNSP requiring us to publish a revenue determination and allowing Basslink to derive its revenues from tariffs we set under the NER. If regulated, consumers would pay for transmission services through their electricity bills"[1].

[1] AER Issues Paper November 2023, Basslink conversation application and electricity transmission determination 2025-2030.

The AER also notes: "Consumers pay for regulated transmission services through their electricity bills. TNSPs recover most of their costs from distribution network service providers (DNSPs). DNSPs in turn recover their costs from retailers and retail customers. Some large businesses are directly connected to the transmission network, rather than a distribution network. They also contribute to recovery of transmission costs."[2]

Section 40AB of the *Electricity Supply Industry Act 1995* (ESI Act) outlines the principles to be taken into account by the Regulator in determining the maximum prices to be charged for regulated small customers.

These principles appear to already appropriately account for the possible changes in circumstances that would occur if regulation of Basslink proceeds – including the potential introduction of a new TNSP and the possibility of new or changed transmission or distribution prices or costs being applied to customers through their retailers. Having a standing offer price methodology which allows for recovery of these costs by the standing offer retailer from regulated customers on what is effectively a 'pass through' basis is both consistent with what is done in other jurisdictions which have more than one TNSP, and with the AER's comments regarding the revenue recovery process cited above.

Please contact myself via john.cooper@hydro.com.au should you have any questions regarding this submission.

Yours sincerely,

John Cooper
Manager Market Regulation

[2] AER Issues Paper November 2023, Basslink conversation application and electricity transmission determination 2025-2030.