



**STATEMENT OF REGULATORY INTENT  
WHOLESALE CONTRACT REGULATION**

February ~~April~~ 2024~~2~~

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## GLOSSARY

“**Act**” means the *Electricity Supply Industry Act 1995*.

“**Allocation Date**” has the same meaning as in the **Wholesale Contract Regulatory Instrument**.

“**Authorised Retailer**” has the same meaning as in the **Wholesale Contract Regulatory Instrument**.

“~~Audited~~ **wholesale pricing model**” means the audited model used to calculate wholesale contract prices, ~~that Hydro Tasmania provided to the Economic Regulator on 20 December 2013 and~~ as revised from time to time<sup>1</sup>.

“**Compliance Enforcement Policy**” means the *Compliance Enforcement Policy, Version 3*, 26 February 2021 issued by the **Regulator** and as revised from time to time.

“**Construction Quarter**” has the same meaning as in the **Wholesale Contract Regulatory Instrument**.

“**Hydro Tasmania**” means the Hydro-Electric Corporation (ABN 48,072 377 158).

“**Hydro Tasmania**” means the Hydro-Electric Corporation (ARBN 48,072 377 158).

“**Regulations**” mean the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2023*.

“**Regulator**” means the Regulator established under the Act.

“**Statement**” means the Statement of Regulatory Intent.

“**Weekly offer process**” has the same meaning as in the **Wholesale Contract Regulatory Instrument**.

“**Wholesale Contract Regulatory Instrument**” means the document that specifies the approvals (as amended from time to time) made by the **Regulator**, in accordance with section 43G of the **Act**, having taken into account the principles set out in section 43H of the **Act**.

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<sup>1</sup> The last audit of the model was completed in January 2018.

# 1 INTRODUCTION

## 1.1 Purpose

The purpose of ~~this the~~ **Statement** is to describe how the ~~processes the~~ **Economic Regulator** ~~will intends undertake in administering~~ the wholesale contract regulatory framework.

More information on the wholesale contract regulatory framework is available on the **Economic Regulator's** website: Wholesale Pricing  
[www.economicregulator.tas.gov.au](http://www.economicregulator.tas.gov.au).

## 1.2 Structure

~~This The~~ **Statement** is structured as follows:

- Chapter 2 sets out the **Economic Regulator's** proposed criteria for deciding whether that **Hydro Tasmania** has failed to comply with its legislative obligations with respect to the calculation of wholesale contract prices. The Chapter also details the **Economic Regulator's** ~~proposed~~ process for fixing prices in these circumstances;
- Chapter 3 sets out the **Economic Regulator's** proposed criteria for deciding whether that a supply disruption event has occurred. The Chapter also ~~outlines~~ includes the **Economic Regulator's** ~~proposed~~ process for considering whether to fix prices if such an event occurs; and
- Chapter 4 discusses the ~~proposed~~ process for updating the inputs set out in Schedule 1 of the **Wholesale Contract Regulatory Instrument**.

## 1.3 ~~Commencement~~ Start date

~~This The~~ **Statement** (Version 23.0) takes effect on ~~4 January 2017~~ 01 July 2024  
MMM YYYY.



## 2 FAILURE TO CORRECTLY APPLY APPROVED METHODOLOGY

This Chapter ~~discusses~~ specifies the circumstances in which the **Economic Regulator** may fix regulated wholesale contract prices if the **Economic Regulator** is satisfied that **Hydro Tasmania** has failed to correctly apply the approved methodology in calculating regulated wholesale contract prices.

### 2.1 Legislative obligations

Section 43M(1) of the **Act** provides for the ~~Economic Regulator~~ to approve fixing prices for regulated wholesale contracts if the **Economic Regulator** is satisfied that there has been a “significant, deliberate or repeated failure” by **Hydro Tasmania** to correctly apply the approved pricing methodology.

Section 43M(1) also requires the ~~Economic Regulator~~ to advise **Hydro Tasmania** and each **Authorised Retailer** that retails electricity in Tasmania, that the ~~Economic Regulator~~ is approving fixing the prices of the wholesale regulated contracts that **Hydro Tasmania** is required to offer **Authorised Retailers**.

Where an approval to fix prices is made under section 43M(1), section 43N(1) enables the ~~Economic Regulator~~ to fix prices and section 43N(2) requires the Economic Regulator to fix prices using the approved pricing methodology.

### 2.2 Process with regards to suspected failure to correctly apply the approved pricing methodology

The terms “significant, deliberate or repeated” are not defined in the **Act** or in the **Regulations**. For the purposes of this **Statement**, the ~~Economic Regulator~~ will define/interpret each of the terms as follows.

- (1) Significant - the prices calculated by **Hydro Tasmania** for regulated contracts differ by five per cent or more from the prices calculated by the ~~Economic Regulator~~ using the ~~Audited~~ **wholesale pricing model**.
- (2) Deliberate - the ~~Economic Regulator~~ considers, based on information it has obtained, that **Hydro Tasmania** has intentionally used a ~~methodology~~ inconsistent method ~~inconsistent~~ with the **Wholesale Contract Regulatory Instrument** to calculate regulated wholesale prices.
- (3) Repeated - the prices calculated by **Hydro Tasmania** for regulated contracts differ by ~~greater more~~ greater than \$0.01 from the prices calculated by the ~~Economic Regulator~~ using the ~~Audited~~ **wholesale pricing model**:
  - on two or more occasions during any ~~30 calendar~~ 30-calendar day period on a rolling basis; or

- on more than six occasions during any 365 calendar day period on a rolling basis.
- Should any of these situations arise, the **Regulator** will initially seek an explanation from **Hydro Tasmania**. If **Hydro Tasmania's** response adequately explains and justifies the variation and the problem is rectified in accordance with the timeframe specified by the **Regulator**, no further action will be undertaken.
- If the issue is not resolved to the **Regulator's** satisfaction, the **Regulator** may, approve the stepping in and fixing of prices, under the **Wholesale Contract Regulatory Instrument**.
- If the **Regulator** approves the stepping in and fixing of prices the **Economic Regulator** will notify both **Hydro Tasmania** and each **Authorised Retailer** of its approval to fix prices.
- The **Regulator** will calculate prices, from the first **Allocation Date** after notifying **Hydro Tasmania** and **Authorised Retailers** of its approval to fix prices, for each regulated wholesale contract type.
- The **Regulator** will fix prices by carrying out the relevant calculations using the copy of the **wholesale pricing model** **Hydro Tasmania** has provided to the **Regulator**. **Hydro Tasmania** must provide to the **Regulator** any data required to run the model.
- **Hydro Tasmania** will be required to publish the prices determined by the **Regulator** on its website on each **Allocation Date** and **Hydro Tasmania** will be required to offer regulated contracts at these prices.
- The **Regulator** will then undertake an investigation to determine the reasons for the non-compliance.
- The **Regulator** will notify **Hydro Tasmania** and each **Authorised Retailer** of the outcomes of its investigation and direct **Hydro Tasmania** to implement the recommendations from the investigation.
- Once the **Regulator** is satisfied that **Hydro Tasmania** has implemented the recommendations from the investigation, the **Regulator** will direct **Hydro Tasmania** to resume responsibility for calculating prices and will inform each **Authorised Retailer** when this will be effective from.

### 2.3 Authorised Retailer requests the Regulator to fix prices

Regulation 22(1) of the **Regulations** allows an **Authorised Retailer** to apply to the **Regulator** to make an approval to fix prices under section 43M(1) of the **Act**. Prior to making an approval under section 43M(1) of the **Act** and fixing prices, regulation 22(2)(b) requires the **Regulator** to conduct a compliance investigation.



If after considering a request from a retailer, the Regulator decides not to carry out a compliance investigation the **Regulator** is required to meet the requirements set out in regulation 22(3).

If after considering a request from a retailer the Regulator decides to carry out a compliance investigation the **Regulator** is required to follow the investigation, notification, reporting and approval requirements set out in regulations 23 to 25 inclusive.

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## 3 SUPPLY DISRUPTION EVENT

This Chapter ~~discusses~~ specifies the ~~Economic Regulator's~~ approach to determining whether a supply disruption event has occurred.

This Chapter also discusses the process the ~~Economic Regulator~~ will follow if, in the ~~Economic Regulator's~~ opinion, a supply disruption event has occurred.

### 3.1 Legislative obligations

Section 43M(2) of the **Act** specifies that the ~~Economic Regulator~~ may approve the ~~Economic Regulator~~ stepping in and fixing prices if the ~~Economic Regulator~~ is of the opinion that a 'supply disruption event' has occurred. Prior to approving the fixing of prices the ~~Economic Regulator~~ must consult with the Treasurer.

Section 43M(3) of the **Act** defines a supply disruption event as:

...an event (other than a drought) that, in the opinion of the Regulator, is likely to cause a prolonged interruption to a substantial quantity of the electricity that would otherwise be supplied under normal circumstances by Hydro.

Sections 43N(3) and (4) provide that, where the ~~Economic Regulator~~ approves the fixing of prices in response to a supply disruption event, the ~~Economic Regulator~~ may use an alternative pricing method to calculate the regulated wholesale contract prices. The use of an alternative pricing methodology may be appropriate as a supply disruption event may render the approved pricing methodology invalid.

### 3.2 Has a supply disruption event occurred?

Whilst a supply disruption event is defined in section 43M(3) of the **Act**, the ~~Economic Regulator~~ is required to decide whether the event has caused a *prolonged* interruption to a *substantial* quantity of the electricity *normally* supplied by **Hydro Tasmania**.

The ~~Economic Regulator~~ will determine if a supply disruption event has occurred after:

- consulting with **Hydro Tasmania** and each **Authorised Retailer** on the nature of the event and the impact of the event on each affected entity; and
- considering any matters that the ~~Economic Regulator~~ deems relevant.

### 3.3 Response to a supply disruption event

If, in the ~~Economic Regulator's~~ opinion, a supply disruption event has occurred the ~~Economic Regulator~~ will notify **Hydro Tasmania** and **Authorised Retailers** that, in the ~~Economic Regulator's~~ opinion, a supply disruption event has occurred.

The current **Weekly offer process** is to continue unless the **Regulator** advises otherwise. However, consistent with clause 22 of the **Wholesale Contract Regulatory Instrument, Hydro Tasmania** may set both the energy and capacity traffic lights for all quarters to red pending the outcome of the **Regulator's** decision on the appropriate response to the supply disruption event.

In deciding on the most appropriate course of action to take in response to a supply disruption event the **Regulator** will consult with the Treasurer, **Hydro Tasmania** and each **Authorised Retailer** seeking their views on:

- the nature of the event and its impact on the market;
- whether a different pricing methodology is more appropriate; and
- if a different methodology is required to calculate regulated wholesale prices, the time required to develop and implement a different methodology.

The **Regulator** will endeavour to ensure that the **Regulator's** response to the supply disruption event:

- (a) is transparent and provides regulatory certainty;
- (b) has benefits to the current Wholesale Regulatory Framework which outweigh the costs of changing the Framework; and
- (c) does not have a negative impact on the efficiency of the Tasmanian Wholesale Electricity derivatives market.

In accordance with section 43M(2) of the Act, if the **Regulator** forms the opinion that a supply disruption event has occurred the **Regulator** will notify **Hydro Tasmania** and each **Authorised Retailer**, as soon as possible

,  
:  
:

- that the **Regulator** has approved the fixing of prices; and
- the method the **Regulator** will use to calculate the regulated wholesale contract prices; or
- that the **Regulator** has decided to take no action.

If the **Regulator** does approve the fixing of prices, at an appropriate time the **Regulator** will revoke its approval to fix prices and direct **Hydro Tasmania** to resume its regulated wholesale contracting activities.

## 4 UPDATING INPUTS

### 4.1 Background

In addition to being responsible for the overall administration of the [Wholesale Contract Regulatory Instrument](#), the **Economic Regulator** is also responsible for determining the values for the inputs in Schedule 1 of the [Instrument](#). ~~Wholesale Contract Regulatory Instrument well as the overall administration of the Wholesale Contract Regulatory Instrument.~~

### 4.2 Input review and update process

To provide market participants with as much transparency and certainty as is practicable, the **Economic Regulator** will review Schedule 1 inputs in accordance with the following schedule:

Schedule 1 - Inputs set by the Economic Regulator	Review Frequency
Table 1 Off-Peak Cap Values	Annual
Table 2 Absolute Minimum Capacity Offer Volume	Annual
Table 3 Supplementary Offer Volumes, Headroom Buffers and Reserved Percentage	Annual
Table 4 Marginal Loss Factors	Annual
Table 5 New Committed Wind Generation	Annual <sup>Note 1</sup>
Table 6 Calculation of Tasmanian Cap Values	
Costing Quarter	Annual
Economic Life	Annual
Forecast Inflation Rate	Annual
Nominal Post Tax Debt Cost	Annual
Pre-Tax Real WACC	Annual
Real Annual Operating Cost	Annual
Real Total Capital Cost	Annual
Construction Quarter	Annual <sup>Note 1</sup>
Table 7 Contract premiums	Annual

Note:

1. — Data may be updated more frequently if AEMO publishes updated data.

Where possible, the **Regulator** will link the input values to verifiable, independent, third party data.

~~The timing of the annual input value update will depend on the availability of updated data, in particular the publication of updated data on the Australian Energy Market Operator's website.~~

~~Input values based on AEMO data will be updated for the first **Allocation Date** after the publication of the data, including any updated data, on AEMO's website.~~

~~Input values reviewed on a quarterly basis will be updated for the first **Allocation Date** after the data is published on the relevant third parties' website.~~

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