



**Proposed alternative methodology under clause 24.2(a)  
of the Wholesale Contract Regulatory Instrument**

**Consultation Paper**

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# TABLE OF CONTENTS

<b>GLOSSARY .....</b>	<b>I</b>
<b>1 BACKGROUND AND PURPOSE .....</b>	<b>1</b>
1.1 BACKGROUND .....	1
1.2 PURPOSE .....	1
<b>2 PROPOSED ALTERNATIVE METHODOLOGY .....</b>	<b>3</b>
2.1 DESCRIPTION OF PROPOSED ALTERNATIVE METHODOLOGY .....	3
2.2 DISCUSSION.....	3
<b>3 RESPONDING TO THIS CONSULTATION PAPER .....</b>	<b>5</b>



## GLOSSARY

**“Absolute Minimum Capacity Offer Volume”** has the same meaning as in the Wholesale Contract Regulatory Instrument;

**“Authorised Retailer”** has the same meaning as in the *Electricity Supply Industry Act 1995*;

**“Buying Tasmanian Hedge Contract”** has the same meaning as in the Wholesale Contract Regulatory Instrument;

**“Calculation Period”** has the same meaning as in the Wholesale Contract Regulatory Instrument;

**“Capacity Headroom”** has the same meaning as in the Wholesale Contract Regulatory Instrument;

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

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

**“Economic Regulator”** means the Tasmanian Economic Regulator established under the *Economic Regulator Act 2009*;

**“Selling Tasmanian Hedge Contract”** has the same meaning as in the Wholesale Contract Regulatory Instrument;

**“Supplementary Offer Capacity Volume”** has the same meaning as in the Wholesale Contract Regulatory Instrument;

**“Total Existing Capacity Volume”** has the same meaning as in the Wholesale Contract Regulatory Instrument;

**“Total Tasmanian Load”** has the same meaning as in the Wholesale Contract Regulatory Instrument;

**“Traffic Light Conditions”** has the same meaning as in the Wholesale Contract Regulatory Instrument;

**“Wholesale Contract Regulatory Instrument”** means the instrument that specifies the regulated contracts **Hydro Tasmania** must offer to **Authorised Retailers**. The instrument is:

- (i) the approval made by the Minister for Finance on 29 July 2013 (as amended from time to time), in accordance with sections 43G and 43O of the *Electricity Supply Industry Act 1995* and Regulation 20 of the *Electricity Supply Industry (Pricing and Related Matters) Regulations*

II PROPOSED ALTERNATIVE METHODOLOGY UNDER CLAUSE 24.2(a) OF THE WHOLESale CONTRACT  
REGULATORY INSTRUMENT - CONSULTATION PAPER

2013, having taken into account the principles set out in section 43H of the *Electricity Supply Industry Act 1995*; or

- (ii) the approval made by the **Economic Regulator** (as amended from time to time), in accordance with section 43G of the *Electricity Supply Industry Act 1995*, having taken into account the principles set out in section 43H of the *Electricity Supply Industry Act 1995*.

# 1 BACKGROUND AND PURPOSE

## 1.1 Background

Clause 24.2(a) of the Wholesale Contract Regulatory Instrument (Instrument) outlines a methodology that Hydro Tasmania must follow in estimating its Total Existing Capacity Volume. Total Existing Capacity Volume is a measure of the current volume of contracts that Hydro Tasmania has entered into in capacity terms. This includes both regulated and unregulated contracts. It is used in the Instrument to determine the remaining volume of capacity contracts Hydro Tasmania has for sale each quarter and, in turn, the Capacity Headroom and Traffic Light Conditions.<sup>1</sup>

Clause 24.2(a) of the Instrument states that Total Existing Capacity Volume can be calculated with respect to the methodology outlined in that section or an alternative methodology approved by the Regulator.

The Economic Regulator notes that its ability to approve an alternative methodology under clause 24.2(a) of the Instrument was permitted through an amendment to the Instrument by the former Government in November 2013. The Economic Regulator understands that Hydro Tasmania and the Department of Treasury and Finance were in discussion about developing an alternative methodology for the Instrument however, due to time constraints at the time, such a methodology was not finalised. The Economic Regulator therefore understands that clause 24.2(a) of the Instrument was amended to allow the Regulator to approve a methodology without needing to amend the Instrument.

On 4 March 2014 Hydro Tasmania wrote to the Regulator seeking the Economic Regulator's approval of an alternative methodology.

## 1.2 Purpose

The purpose of this paper is to discuss issues associated with the proposed alternative methodology and seek feedback from stakeholders.

Chapter 2 of this paper discusses the proposed alternative methodology to calculate Total Existing Capacity Volume under clause 24.2(a) of the Instrument.

Information on how to provide comment on the draft alternative methodology is provided in Chapter 3.

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<sup>1</sup> Traffic Light Conditions are a requirement in the Instrument for Hydro Tasmania to make public the remaining volume of contracts it has to offer for a quarter. Lower volumes of contract offers are required to be made each week once Capacity Headroom reduces to specific threshold levels.



## 2 PROPOSED ALTERNATIVE METHODOLOGY

### 2.1 Description of proposed alternative methodology

The following is an alternative proposed methodology that the Economic Regulator is considering approving under clause 24.2(a) in the Instrument.

The Total Existing Capacity Volume for a Quarter is to be calculated using the following methodology:

The Total Existing Capacity Volume for a Quarter is equal to the largest Net Capacity Contract Volume for a Calculation Period in a Quarter. The Net Capacity Contract Volume for each Calculation Period is equal to the sum of the estimated capacities for all Tasmanian contracts that apply in respect of that Calculation Period, in MW. When estimating the capacity of a contract for a Calculation Period, Hydro Tasmania will make a reasonable forecast or estimate based on historical data and other relevant information.

For the purposes of this calculation, a volume of electricity the subject of a Selling Tasmanian Hedge Contract is taken to be a positive amount, and a volume of electricity the subject of a Buying Tasmanian Hedge Contract is taken to be a negative amount

This methodology will remain in effect unless it is revoked by the Economic Regulator or it is substituted by another alternative methodology approved by the Economic Regulator under clause 24.2(a) of the Instrument.

### 2.2 Discussion

Under the current methodology specified in clause 24.2(a) of the Instrument, Total Existing Capacity Volume is calculated as the sum of the largest capacity volumes for each contract type in a quarter.

Hydro Tasmania considers that the current methodology is cumbersome from a process perspective as it differs from Hydro Tasmania's current methodology and the calculation components are not easily identifiable within Hydro Tasmania's current reporting system.

Hydro Tasmania's proposed alternative methodology, outlined in the box in section 2.1 above, is the sum of the capacity volumes of every individual contract in each half hour period to determine the maximum capacity point in a quarter.

The key difference is that under the current methodology the maximum capacity observed for each contract type may not necessarily fall in the same half hour time period. Given this, the Economic Regulator understands that, under the current methodology, the calculated maximum capacity will be larger than the actual

maximum capacity during any half hour period as the methodology effectively 'cherry picks' maximum capacity from contracts whenever they are purchased, not when they are aligned together.

The Economic Regulator understands that the proposed alternative methodology more closely aligns with Hydro Tasmania's internal practices and therefore, would impose less of a regulatory burden on Hydro Tasmania.

Furthermore, under the proposed alternative methodology the volume of contracts available for contracting purposes will either be the same or higher than under the current methodology.

The Economic Regulator notes that under clause 23.1 of the Instrument, Total Existing Capacity Volume is subtracted from Total Tasmanian Load for a contract quarter (including the volume of Absolute Minimum Weekly Capacity Offer Volume) to determine the Capacity Headroom for a quarter in a week. This means that under the proposed alternative methodology, with Total Existing Capacity Volume being either lower or the same, Capacity Headroom would be higher or the same. The implication of this is that a higher volume of contracting capacity would be available to be sold to Authorised Retailers and it would likely take longer to reach the amber traffic light condition (in which Hydro only needs to offer 10 MW of Supplementary Capacity Offer Volumes per week as opposed to 20 MW under the green light condition). This suggests that Authorised Retailers would be better off under the proposed alternative methodology.

The Economic Regulator notes that the proposed alternative methodology appears to be a technical amendment to the Instrument that largely reduces regulatory burden for Hydro Tasmania. However, given the early nature of wholesale contract regulation and in the interests of transparency the Economic Regulator considers it prudent to consult on the proposed methodology. The Economic Regulator is keen to determine if stakeholders consider that if there may be any unintended consequences likely to arise from approving the proposed alternative methodology.

The Regulator is seeking feedback on: the proposed alternative methodology for estimating Total Existing Capacity Volume under clause 24.2(a) of the Instrument.

### 3 RESPONDING TO THIS CONSULTATION PAPER

The Economic Regulator invites written comment on the draft methodology and other issues in this Consultation Paper. Submissions will be considered prior to the draft methodology being finalised and must be received by **close of business on Monday 19 May 2014**.

It is normal practice for all submissions to be published on the Economic Regulator's website unless the author of the submission requests confidentiality in relation to the submission (or any part of the submission). Those parts of a submission that are requested to be kept confidential should be submitted as an attachment to that part suitable for publication.

The Economic Regulator will not publish submissions which contain material that the Economic Regulator believes is, or could be, derogatory or defamatory.

If you would like further information on the treatment of confidential submissions, please refer to the Economic Regulator's *Policy on the treatment of confidential submissions* document on its website.

Submissions by email are preferred to assist in publishing submissions on the website.

Submissions may be made by email to:

[office@economicregulator.tas.gov.au](mailto:office@economicregulator.tas.gov.au)

by mail to:

Glenn Bounds (Assistant Director – Price and Service),

Office of the Tasmanian Economic Regulator,

GPO Box 770,

Hobart 7001

or by facsimile to: 03 6233 5666.

Enquiries may be made by email to: [office@economicregulator.tas.gov.au](mailto:office@economicregulator.tas.gov.au) or by phone to: 03 6166 4422.

A copy of the proposed alternative methodology and this Consultation Paper may also be found on the **Economic Regulator's** website: [www.economicregulator.tas.gov.au](http://www.economicregulator.tas.gov.au)