



Wholesale Contract Regulatory Instrument
Pricing investigation

Consultation Paper

February 2021

Printed February 2021
Office of the Tasmanian Economic Regulator
Level 3, 21 Murray Street, Hobart TAS 7000
GPO Box 770, Hobart TAS 7001
Phone: (03) 6166 4422

ISBN 978-1-922379-29-0

Copyright
© Office of the Tasmanian Economic Regulator

INVITATION TO MAKE SUBMISSIONS

It is the Tasmanian Economic Regulator's (Regulator) policy to publish all submissions on the Office of the Tasmanian Economic Regulator's (OTTER) 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 confidential should be submitted as an attachment to that part suitable for publication.

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

Submissions should be received by close of business 28 February 2021.

To facilitate the publication of submission on OTTER's website, submissions by email are preferred. Submissions and enquires may be made to:

office@economicregulator.tas.gov.au

or to

Glenn Bounds
Office of the Tasmanian Economic Regulator
GPO Box 770,
Hobart 7001

Telephone: 03 6166 4293

A copy of this Consultation Paper is also available on the Regulator's website:
www.economicregulator.tas.gov.au.

Following consideration of submissions, the Regulator will publish a final investigation report on its website.

1 BACKGROUND

The Regulator is responsible for the regulation of some of Hydro Tasmania's wholesale contract activities under the *Electricity Supply Industry Act 1995* (ESI Act).

Under section 43G(1) of the ESI Act, the Regulator is required to approve a number of matters (approvals) relating to Hydro Tasmania's wholesale contract activities. These approvals are embodied in a Wholesale Contract Regulatory Instrument (Instrument).

Hydro Tasmania is required under section 43I of the ESI Act to offer approved financial risk contracts (approved contracts) to authorised retailers selling electricity in Tasmania, and, if requested by the retailers, to enter into these contracts with these retailers.

On 28 November 2017, the Australian Energy Market Commission amended the National Electricity Rules by changing the settlement period for the electricity spot price in the National Electricity Market (NEM) from 30 minutes to five minutes. The change was to take effect from 1 July 2021 but has been postponed to 1 October 2021 and therefore the change will apply from the fourth quarter of 2021.

In response to Hydro Tasmania's concern that the November 2017 Instrument did not provide for the change in the settlement period that would apply from 1 June 2021 the Regulator conducted two pricing investigations in 2019 to identify and make the changes to the approvals to allow for the settlement period to be varied. The first investigation provided an interim solution while the second investigation provided a longer-term solution. The changes identified during the second investigation were incorporated into the Instrument that took effect on 1 October 2019 (current Instrument).

Since then Hydro Tasmania has identified another issue in the approvals relating to the change in settlement periods and as well as an erroneous clause reference in Schedules 4 and 5.

The Regulator does not have the ability to amend the approvals made under section 43G(1) of the ESI Act. However, under section 43G(4) the Regulator has the ability to revoke an approval and make a new approval. *Regulation 21 of the Electricity Supply Industry (Pricing and Related Matters) Regulations 2013* (the Pricing Regulations) requires the Regulator to conduct a pricing investigation prior to revoking or making an approval. The Regulator is therefore conducting another pricing investigation commencing in February 2021 to make the necessary changes to the approvals to address the issue raised by Hydro Tasmania with respect to the change in settlement periods.

2 SCOPE AND OBJECTIVE OF THE INVESTIGATION

The objective of the Investigation is to provide the Regulator with information to determine whether to revoke the approvals in the current Instrument, and whether to make new approvals, to be embodied in a new Instrument, which reflect the spot market settlement arrangements in the NEM both before and after 1 October 2021.

3 DISCUSSION AND PROPOSED ACTIONS

Clause 18 of the Instrument allows Authorised Retailers to nominate aggregate Capacity Volumes for Baseload Peak Period and Baseload \$300 Cap Contracts the retailers wish to enter into. Clause 18(i) requires the Capacity Volume for each type of contract for that contract quarter in a week to be a multiple of 0.1 MW.

In contrast, Clause 5.2 (b) of the Instrument requires the Notional Quantity per Calculation Period in the relevant confirmation to be a multiple of 0.05MWh. With the change to five minute settlement this requirement creates a situation where a contract volume that complies with Clause 18(i) may not comply with Clause 5.2 (b). To address this issue the Regulator proposes changing the text in clause 5.2 (b) as shown in Table 1. The change will allow not only a change to five minute settlement periods but also allow for any future changes in the duration of settlement periods.

The Regulator proposes revoking the existing approvals and making new approvals embodied in a new Instrument that contains all the provisions in the existing Instrument but with the changes shown in Table 1.

Table 1 Proposed changes to Instrument effective 1 October 2019

<i>Main body of Instrument</i>	
Part 2 - Types and Standard Forms of Contract , Clause 5.2 Required Alterations (page 5)	The Regulator proposes replacing the following text in Clause 5.2(b): <i>“that the “Notional Quantity per Calculation Period” as defined in that Confirmation must be a multiple of 0.05MWh”</i> with <i>“that the “Notional Quantity per Calculation Period” as stated in that Confirmation must be a multiple of 0.1MW divided by the number of Calculation Periods in one hour”.</i>
<i>Schedules (applicable as indicated)</i>	
Notional Quantity per Calculation Period(s) in Schedules 4, 5 and 6 (pages 95, 100 and 105 respectively)	As a corollary of the change to Clause 5.2(b) the Regulator proposes changing the details of the term “Notional Quantity per Calculation Period(s) from: <i>[It is a Required Alteration that this be a multiple of 0.05MWh]</i> to: <i>[It is a Required Alteration that this be a multiple of 0.1MW divided by the number of Calculation Periods in one hour] rounded to four decimal places.</i>

Peak Calculation Period in Clause 4 of Schedule 5 (page 103)	Due to the details of “Calculation Period” being changed during the last Investigation the term “Peak Calculation Period” is no longer used in Schedule 5 - Peak Period Swap Confirmation. The Regulator therefore proposes deleting that term from the definitions in Clause 4 of the Confirmation.
Transmission Fee Increase in Clause 2(c) in Schedule 4 (page 97) and Schedule 5 (page 102)	<p>Clause 2(c) in both Schedules 4 and 5 incorrectly refers to Clause 5(c)(i) and also contains an extra bracket in the definition of (E).</p> <p>In Clause 2(c)(ii) of Schedule 4 and Schedule 5 the Regulator proposes replacing the reference to Clause 5(c)(i) with a reference to Clause 2(c)(i) and amending the definition of (E) from:</p> <p><i>(E) E is the Notional Quantity for the Calculation Period (in MW (calculated by taking the Notional Quantity for the Calculation Period in MWs and multiplying by the number of Calculation Periods in an hour).</i></p> <p>to:</p> <p><i>(E) E is the Notional Quantity for the Calculation Period in MW (calculated by taking the Notional Quantity for the Calculation Period in MWs and multiplying by the number of Calculation Periods in an hour).</i></p>

4 MATTERS TO BE ADDRESSED IN SUBMISSIONS

The Regulator invites comments on the proposals set out in this Consultation Paper.

The Regulator also invites comments on its intention to revoke the current approvals and to make new approvals which will be embodied in a new Instrument.

5 NEXT STEPS

Following consideration of submissions made in response to the proposals in this Consultation Paper, the Regulator will publish a final investigation report by 30 March 2021 together with a new Instrument that will take effect from the date of publication.