



Wholesale Contract Regulatory Instrument Pricing
Investigation

Final Report

March 2021

Printed March 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 978-1-922379-32-0

Copyright

© Office of the Tasmanian Economic Regulator

TABLE OF CONTENTS

1. BACKGROUND	1
1.1 Reason for pricing investigation	1
1.2 Objective of pricing investigation.....	1
2. PROPOSED CHANGES.....	3
2.1 Submissions	4
3. REGULATOR'S DECISION	5

I. 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 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.

I.1 Reason for pricing investigation

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 is scheduled to take effect from 1 October 2021.

In response to Hydro Tasmania's concern that the November 2017 Instrument did not provide for the change in the settlement periods, the Regulator conducted two pricing investigations in 2019 to identify and make the necessary changes to the approvals to allow for five minute settlement. The first investigation provided for interim solution while the intent of the second investigation was to identify a longer-term solution. The changes identified during the second investigation were incorporated into the Instrument that took effect 1 October 2019 (current Instrument).

Hydro Tasmania has since identified an issue relating to contract volume under five minute settlement in the current Instrument. Specifically:

- Clause 18 of the Instrument allows authorised retailers to nominate aggregate Capacity Volumes for Baseload Peak Period contracts and Baseload \$300 Cap contracts they want to enter into. Clause 18(i) requires the Capacity Volume for each type of contract for that contract quarter for each 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 settlements this requirement created a situation where a contract volume that complies with Clause 18(i) may not comply with Clause 5.2 (b). This is due to the change in the number of settlement periods in one hour which, for some contract volumes, results in the volume of contracts in MWh, when converted from MW, not being a multiple of 0.05MWh.

I.2 Objective of pricing investigation

The Regulator does not have the power to amend an approval made under section 43G(1) of the ESI Act. Under section 43G(4) the Regulator has the power to revoke an approval made under section 43G(1) 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 objective of the February 2021 pricing investigation was to provide the Regulator with information to determine whether to revoke the approvals in the current 2019 Instrument, and, if so, to prepare new approvals, to be embodied in a new Instrument which addresses the issue identified by Hydro Tasmania.

The investigation also identified some minor typographical and errors in the current Instrument.

2. PROPOSED CHANGES

The Regulator issued a consultation paper in February 2020 that proposed some changes to the Instrument to address the issue that contract volumes that comply with Clause 18(i) may not comply with Clause 5.2 (b).

The *Wholesale Contract Regulatory Instrument, Pricing Investigation, Consultation Paper, February 2021 (Consultation Paper)* proposed revoking the existing approvals and making a new Instrument which included the changes as shown in Table 1. Also included in Table 1 are two minor wording changes.

Table 1: Proposed changes to Instrument effective 1 October 2019

Main body of Instrument	
Part 2 - Types and Standard Forms of Contract , Clause 5.2 Required Alterations (page 5)	The Regulator proposed 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>
Schedules (applicable as indicated)	
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 proposed 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 proposed 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)	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). In Clause 2(c)(ii) of Schedule 4 and Schedule 5 the Regulator proposed replacing the reference to Clause 5(c)(i) with a reference to Clause 2(c)(i) and amending the definition of (E) from:

	<p>(E) <i>E is the Notional Quantity for the Calculation Period (in MW (calculated by taking the Notional Quantity for the Calculation Period in MWhs and multiplying by the number of Calculation Periods in an hour).</i></p> <p>to:</p> <p>(E) <i>E is the Notional Quantity for the Calculation Period in MW (calculated by taking the Notional Quantity for the Calculation Period in MWhs and multiplying by the number of Calculation Periods in an hour).</i></p>
--	---

2.1 Submissions

The Regulator received a submission from Aurora Energy stating that it did not have any issues with the proposed changes. Hydro Tasmania has advised the office of the Tasmanian Economic Regulator that it supports the proposed changes.

3. REGULATOR'S DECISION

The Regulator has decided to implement the changes proposed in the Consultation Paper and will:

- revoke the current approvals; and
- make new approvals that includes the changes set out in Table 1.

The new approvals are embodied in a new Instrument effective from 19 March 2021.