

21 January 2016

Mr Joe Dimasi
Tasmanian Economic Regulator
Office of the Tasmanian Economic Regulator
GPO Box 770
HOBART TAS 7001

Dear Mr Dimasi

REVIEW OF THE WHOLESALE CONTRACT REGULATORY INSTRUMENT ISSUES PAPER

Many thanks for the opportunity to provide input to the Review of the Wholesale Contract Regulatory Instrument (Instrument) Issues Paper (Issues Paper). Aurora Energy's submission to the Review is attached to this letter.

Aurora Energy is supportive of the continuation of the Instrument, noting it has been effective in meeting many of the intended goals behind its creation. For the Issues Paper, where possible, Aurora Energy has sought to respond to the Regulator's specific questions and provide insight to guide the review of the Instrument.

If you have any questions or wish to discuss further, please contact Giles Whitehouse, Manager Risk, Regulatory & Compliance, Ph: 0409 828 533.

Yours sincerely



Grant Russell
(Acting) Chief Executive Officer

Aurora Energy response to Review of Wholesale Contract Regulatory Instrument – Issues Paper 2016

General

To date, Aurora Energy has considered the operation of the Wholesale Contract Regulatory Instrument (Instrument) by the Regulator to be effective and that it has produced efficient outcomes. Overall, it is Aurora Energy's view that its framework requires only minimal remediation.

It is noted that the Instrument was developed to mitigate the perceived risks of Retailers by addressing some of the specific characteristics associated with the Tasmanian wholesale electricity market. Since the implementation of the Instrument, these characteristics have not altered and therefore must continue to be addressed through a regulated wholesale instrument. Tasmanian utility scale generation is entirely supplied by a single generator, Hydro Tasmania (Hydro). This includes the link to mainland jurisdictions, Basslink, over which Hydro has operational control. Further, hydroelectric power has remained the dominant source of generation with the infrequent running of the Tamar Valley Power Station and other sources.

As observed by the Expert Panel that reviewed the Tasmanian electricity sector across 2011 and 2012, there is no competition in the Tasmanian wholesale electricity generation sector. This status is unchanged in 2016 and is expected to remain as such over the coming years.

In this context, the Instrument has provided a consistent energy price, available to all retailers and linked back to the National Electricity Market. To date, the instrument has not been required to assist competition amongst retailers in the residential market. However, the Instrument has been important to the small business sector where multiple retailers continue to make use of its outputs. Therefore, Aurora Energy considers the continued offer of regulated wholesale contracts as critical to ensuring that Retailers are able to compete on an even playing field within Tasmania.

In regards to the Regulator's specific questions, Aurora Energy notes the following.

1. What risks do market participants foresee, should a more prescriptive regulatory approach to wholesale regulation be adopted?

Overall, Aurora Energy does not support a more prescriptive regulatory approach to the Instrument and wholesale market regulation. Minor administrative changes are required to ensure its ongoing effectiveness based on its first period of operation. These changes include a review of the timeframe for its application and review.

Aurora Energy notes that future events such as emissions trading have the potential to significantly affect the wholesale electricity market. The Regulator should be mindful of the ability to respond to these market events when making a determination on the new Instrument.

2. Do market participants consider that the Instrument and wholesale contract regulatory framework support the objective of achieving full retail competition?

As outlined above, the Instrument is an effective tool in addressing some of the barriers to market entry that are present in the Tasmanian market. However, many factors challenge retailers when considering entry to a new market and it is difficult to assign detailed value to the Instrument in this context. It should be observed that in the market segment where retailers do compete, the Instrument is actively used by participants

3. Is the term of the existing Instrument appropriate for the new Instrument, in the context of the evaluation criteria? Would market participants prefer the term of the new Instrument to align with financial years?

Aurora Energy requests that the period for which the new Instrument be adopted is for a time that provides as much certainty as possible for market participants, and that consideration is given to the implications of timeframes for review. Ideally, Aurora Energy believes the Instrument should be established as an ongoing mechanism with a rolling period of application, whether this be four or five years.

Termination of the Instrument should only occur after a review of its application and be accompanied by a long term notice period of eighteen to twenty-four months which is necessary to enable market participants' effective risk management.

As an alternative, the Instrument should be aligned to both financial years and the end of retail pricing determinations.

4. The Regulator is seeking feedback from stakeholders regarding the potential impact of any overlap between the existing Instrument and the new Instrument and the transitional arrangements, if any, that may be required.

Aurora Energy is seeking a seamless transition from the current version of the Instrument to that set to apply from 1 January 2019. To ensure this smooth path, any overlap should be allowed with a strict parameter that the pricing of transactions executed under the current Instrument must stay in place until its expiry.

The timing of this Investigation is important given the long-term impacts of the Instrument on forward contracting practices of electricity retailers in Tasmania. Given the potential for this investigation to reduce applicable periods of the current Instrument below forward contracting periods, Aurora Energy requests that the Regulator provide an extension to the current Instrument.

5. Would participants prefer greater flexibility to amend the Instrument to rectify errors and correct minor procedural and administrative matters over the certainty provided under the existing Instrument?

Greater flexibility to amend the Instrument to manage minor procedural and administrative changes is acceptable so long as there is no impact to price outcomes of the Instrument's core methodology.

6. **The Regulator is seeking feedback from stakeholders regarding the determination and forecasting of values by Hydro Tasmania, as listed in Part One of the existing Instrument.**

Aurora Energy has no comment.

7. **Is the range of regulated products that are available to market participants appropriate in the context of the evaluation criteria?**

Aurora Energy considers the current range of products available through the Instrument as appropriate.

8. **Does the Regulator need to approve alternative contractual arrangements in circumstances where both parties wish to use an existing Schedule, instead of the Hydro Tasmania Schedule?**

The contractual arrangements provided within the Hydro Tasmania Schedule serve as an adequate basis for regulatory protection. It is the view of Aurora Energy that no further controls are required for alternative schedules.

9. **The Regulator is seeking feedback from stakeholders regarding the calculation of the prices for the peak period swap, baseload swap and load following swap products, as mentioned above, in the context of the evaluation criteria.**

As highlighted above, Aurora Energy considers the current calculation methodology is operating appropriately for all products. The efficient and consistent outcomes derived from the detailed operation of the Instrument suggest no requirement for change.

10. **Is there an alternative methodology that may be applied to the calculation of the maximum baseload \$300 cap contract price in the context of the evaluation criteria?**

Response as per Question 9.

11. **The Regulator is seeking feedback from stakeholders regarding the weekly offer process and limits, scaling rules and calculations included in Part Four of the Instrument.**

Aurora Energy has no comment.

12. **The Regulator is seeking feedback from stakeholders regarding the perceived validity of the values currently listed in Schedule One together with the validity of the assumptions adopted for, and the associated sources of, those values.**

Aurora Energy has no comment.

13. Additional issues

Aurora Energy notes that linked to the core operation of the Instrument are surrounding provisions such as the potential for a supply disruption event to be declared. Greater clarity is required over the practical steps associated with a supply disruption event to ensure transparency and certainty for market participants that may be impacted.

In particular, guidance is sought on what triggers a supply disruption event and for what duration; can an end date be forecast or set, and, what adjustments can be made to the Instrument.

Of importance is the establishment of steps to be taken in how the Instrument is to be adjusted to ensure it remains reflective of the Tasmanian wholesale electricity market. Additionally, detail is required to guide adjustments to the Instrument in relation to when the supply disruption event has ceased to be in effect.

Aurora Energy proposes that a guideline be developed for the management of a supply disruption event. In preparing a guideline for management of a supply disruption event, the impact on Tasmanian customers should also be taken into account. Further, that market based information should provide the basis of determining the length and impact of an event.

Aurora Energy requests that any effort to provide further clarity on the operation of a supply disruption event take place outside the process of this Issues Paper to ensure no unnecessary impacts to the certainty provided by the Instrument.