

Mr Dean Burgess,
Director,
Office of the Tasmanian Economic Regulator,
GPO Box770,
Hobart, Tas 7001

28 March 2014

Draft Statement of Regulatory Intent for Wholesale Contract Regulation

Dear Mr Burgess,

Thank you for the opportunity to comment on the draft statement. We support the general approach adopted in the statement and offer the following responses to the specific questions you have raised.

Section 2 Failure to Correctly Apply Approved Methodology

The Regulator is seeking feedback on the following issues:

- Proposed Definitions of ‘significant’, ‘deliberate’ and ‘repeated’ in determining whether the Economic Regulator should step in to fix prices;
- The proposed process in Section 2.3 of the Statement that the Economic Regulator would follow in forming the view on stepping in and fixing prices
- How the Economic Regulator proposes to set prices

Hydro Tasmania supports the proposed approaches and views them as a pragmatic way of approaching these issues.

Section 3 Supply Disruption Event

The Regulator is seeking feedback on:

- The Regulator’s proposed approach to assessing the impact of a supply disruption event in forming a view on whether a supply disruption event has occurred prior to the Economic Regulator stepping in and fixing prices: and
- The proposed process in Section 3.3 of the Statement that the Economic Regulator intends following in stepping in and fixing prices where a supply disruption event occurs

On the first item, Hydro Tasmania proposes that seasonality should be explicitly mentioned. With a hydro-electric system, seasonality is a very critical element.

In relation to the process in Section 3.3, Hydro Tasmania has some significant concerns. Hydro Tasmania is compelled to offer contracts each week. Under the process outlined, there is likely to be a significant period of time, possibly several days, before the Regulator can instruct Hydro Tasmania to set all regulated contract prices at \$300.

Hydro Tasmania's concern is that there may be an auction between the time when the supply disruption event occurs and the instruction to set contract prices at \$300. Depending on the event, Hydro Tasmania may be unable to physically "back" the contracts with generation which it is forced to sell. The supply disruption could cause spot prices to be very high in Tasmania and the consequential loss for Hydro Tasmania could be tens of millions of dollars.

This impact is partially mitigated by the fact that current quarter contracts are not sold but if the event were at the end of a quarter or the event was for a significant duration, the exposure is unacceptable.

We encourage the Regulator to explore some way of expediting the consultation process, possible by seeking some delegated authority from the Treasurer.

Section 4 Process for Updating Inputs

The Regulator is seeking feedback on:

- Its proposed basis for updating the inputs in Schedule 1 of the Wholesale Contract Regulatory Instrument and
- The proposed process for updating those inputs.

Hydro Tasmania supports the proposed approach.

Please contact the undersigned if you have any queries in relation to this submission.

Yours sincerely,

A handwritten signature in black ink that reads "D. Bowker." with a horizontal line underneath the name.

David Bowker

Manager Regulatory Affairs