

Mr Joe Dimasi,
Regulator,
Office of the Tasmanian Economic Regulator,
GPO Box770,
Hobart, Tas 7001

11 November 2016

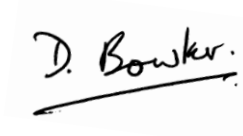
Draft Wholesale Regulated Contract Instrument

Dear Joe,

Please find attached Hydro Tasmania's submission on the Draft Instrument and Associated Documentation.

Please contact me if you require any additional information.

Yours sincerely,



David Bowker
Manager Regulation

Wholesale Regulated Contract Instrument Draft Report

Hydro Tasmania Submission

Overview

Hydro Tasmania is very supportive of the draft instrument and associated documents. We support the Regulator's changes and the recognition that regulatory certainty is a valuable attribute in assessing possible changes. The proposed approach by the Regulator maintains the integrity of the pricing methodology and makes process improvements to enhance the handling of some of the practical issues we have encountered in the last 3 years.

There are a few minor issues which Hydro Tasmania would like to raise which are:

- In relation to a supply disruption event the timing of the setting of the red traffic lights is not correct
- Publishing prices – clarification of when publication should start
- Updating Schedule 1 variables requires a minor adjustment

These are discussed in detail below.

Supply Disruption

In Section 3.3 of the Statement of Regulatory intent the Regulator makes it clear that “Hydro Tasmania may set both the energy and capacity traffic lights for all quarters to red pending the outcome of the Economic Regulator’s decision....”.

In the instrument, section 22.1(b)(i) allows a red light condition to apply when “the Regulator is of the opinion that a supply disruption event has occurred, and approves by notice fixing prices by the Regulator....”

The Instrument needs to be amended so that it reflects the intention as expressed in the Statement of Regulatory Intent, namely that when Hydro Tasmania notifies the Regulator of the Supply Disruption Event, it may set the traffic lights to red immediately.

Hydro Tasmania welcomes the Regulator’s commitment in the Statement of Regulatory Intent Section 3.3 to act “as soon as possible” to notify participants of its decision on how to price following a supply disruption event. We support the regulatory certainty which this will deliver.

Publishing Prices

In Section 4.1 of the Wholesale Contract Guideline, the Regulator proposes requiring Hydro Tasmania to maintain some historic yield and pricing information. The section is silent on the commencement date of this history so Hydro Tasmania proposes it should be explicitly defined as 1 January 2017, when the new instrument commences.

Updating Schedule 1

The Regulator has proposed that most values should be updated annually. The AEMO NEFR is published in June each year so we suggest that the Schedule 1 update is done for the auction on the first Tuesday in August each year. It should be noted that the NEFR is sometimes updated during the year so the procedures should recognise that there may be an additional update of the demand figures only during the year. The reason for having an exception for the NEFR in that it may be updated during the year is that forecast demand has a significant impact on the regulated prices and AEMO will only republish the NEFR if a major change has occurred.

The Regulator has proposed that Inflation in Schedule 1 should be updated quarterly. Hydro Tasmania has previously proposed that it should be updated annually with all other variables. A quarterly update is inconsistent with the use of the Inflation rate in the instrument. It is used to inflate costs for gas plant construction out from the Costing Quarter to the Construction Quarter and then to deflate that price to the value of the cap in the Calculation Quarter. This involves a period of several years and the Inflation value should consequently be the value which applies over several years. Having a volatile quarterly figure used over multiple years is not a sound approach. The example given in the Draft Statement of Regulatory Intent of using Table 6.1 from the Reserve Bank Quarterly Statement of Monetary Policy is ambiguous as there are forecasts for multiple years and it is unclear which year it is proposed to select. It may be that an average over several years would be the most appropriate approach.

Hydro Tasmania supports the inclusion of Construction Quarter in Schedule 1. It should be updated on an annual basis at the same time as other variables. However, since it is being specified in Schedule 1 for the first time it should be shown as 2026. Under the definition of Construction Quarter, failing the demonstrated need for new entry inside 10 years, the value should be 10 years after the latest ESOO from AEMO. AEMO last issued an ESOO in September 2016 so the value should be 2026. Adding this variable to Schedule 1 with the wrong value is not supported.