

11 November 2016

Mr Glenn Bounds  
Assistant Director – Price and Service  
Office of the Tasmanian Economic Regulator  
GPO Box 770  
HOBART TAS 7001

Dear Mr Bounds

**REVIEW OF THE WHOLESALE CONTRACT REGULATORY INSTRUMENT, ELECTRICITY  
WHOLESALE CONTRACT GUIDELINE AND STATEMENT OF REGULATORY INTENT**

Thank you for the opportunity to comment on the draft Wholesale Contract Regulatory Instrument (the Instrument), draft Electricity Wholesale Contract Guideline and draft Statement of Regulatory Intent.

Aurora Energy considers that the first Regulatory Instrument has been effective in providing a consistent energy price that is available to all retailers and mitigating the unique risks associated with retailing electricity in the Tasmanian market. These risks will remain in the future and it is critical that they continue to be addressed through a regulated contract mechanism.

On this basis, Aurora Energy supports that no major amendments are proposed by the Regulator.

Aurora Energy does have some specific concerns arising out of the Regulator's proposal to add a new table to Schedule 1 of the Instrument to include the Construction Quarter, as well as the manner and frequency with which this value is to be updated. Aurora Energy also considers there would be value in clarifying the source of each input to the Instrument. The attached response provides further explanation on these concerns together with a proposed position to address these matters.

If you have any questions or wish to discuss the response further, please contact Kate Spencer, Manager Regulatory, Risk and Compliance on 6237 3293.

Yours sincerely



Rebecca Kardos  
Chief Executive Officer

Encl.

**AURORA ENERGY RESPONSE TO PROPOSED AMENDMENTS TO THE WHOLESALE CONTRACT REGULATORY INSTRUMENT, ELECTRICITY WHOLESALE CONTRACT GUIDELINE AND STATEMENT OF REGULATORY INTENT**

---

**PROPOSED AMENDMENTS TO THE *WHOLESALE CONTRACT REGULATORY INSTRUMENT***

**Consultation Paper Reference Section 3.1.3**

**The Regulator proposes adding a new table to Schedule 1 stating the projected “Construction Quarter” for the gas-fired peaking plant.**

Aurora Energy notes that in the Regulator’s proposal to add a new table to Schedule 1 of the Wholesale Contract Regulatory Instrument to include “Construction Quarter” as a defined term, the Regulator has specified the value of the Construction Quarter as “2022”. Aurora Energy contends that the proposal to specify the value as “2022” for the Construction Quarter is inconsistent with the interpretation of the Construction Quarter defined term as specified in Part 5, Clause 28.1 of the Wholesale Contract Regulated Instrument (the Instrument).

Part 5, Clause 28.1 of the Instrument states:

***Construction Quarter*** means, for a Quarter, the earlier of:

- c) the Winter Quarter in the earliest Calendar Year in which new capacity is required to maintain electricity grid reliability in accordance with the NEM Reliability Standard under the medium economic growth scenario considered by AEMO in its most recently published Statement of Opportunities; or
- d) the Winter Quarter in the Calendar Year that is 10 years after the Calendar Year in which the most recent Statement of Opportunities was published by AEMO.

Based on the above definition, Aurora Energy submits that specifying a set value of 2022 for the Construction Quarter in Schedule 1, as proposed by the Regulator, is contradictory and inconsistent with the application of the term within the Instrument.

Aurora Energy notes that the Regulator also proposes amendments to Section 4.2 of the Statement of Regulatory Intent (Statement) to review this value on an annual basis, aligned to the release of the AEMO’s demand forecast in late June/early July. Aurora Energy acknowledges that whilst a reduced number of updates to the Instrument throughout the year is preferable, the meaning of Construction Quarter in the defined terms of the Instrument does not provide for discretion to be applied by the Regulator in determining when, or if, this value should be updated. Rather, the Instrument places a firm requirement on the Regulator to update this value on an annual basis upon the release of AEMO’s Statement of Opportunities which generally occurs annually in or around September. Aurora Energy submits that the approach to updating this value in the Instrument should be on the same basis as that adopted for AEMO’s demand forecast where it is applied with immediate effect upon its release by

AEMO, rather than effectively delaying this until July in the following year under the proposed amendments to Section 4.2 of the Statement. Utilising this approach, it may not be deemed necessary for the Regulator to include a new table to Schedule 1 stating the projected “Construction Quarter” as effectively it is not an input set by the Regulator. This would be consistent with the treatment of the input for AEMO’s demand forecast.

Notwithstanding the above, Aurora Energy contends that if the Regulator is to specify a set value for Construction Quarter in Schedule 1, based on the meaning of Construction Quarter within the Instrument, this value should to be set at 2026 and the updating of this value on an annual basis should occur following the issuing of AEMO’s Statement of Opportunities.

**PROPOSED AMENDMENTS TO THE STATEMENT OF REGULATORY INTENT**

**Consultation Paper Reference Section 3.3.2**

**The Regulator proposes amending Section 4.2 of the Statement to incorporate a formal review schedule for the inputs set by the Regulator.**

Aurora Energy is generally supportive of the Regulator’s proposal to amend Section 4.2 of the Statement to incorporate a formal review schedule for the inputs set by the Regulator.

Aurora Energy is also supportive of the approach to align updates on an annual basis to reduce the number of changes to the Instrument throughout the year, with the exception of the Construction Quarter input. As indicated above in Aurora Energy’s response to Consultation Paper Reference Section 3.1.3, Aurora Energy submits that if a reference to the Construction Quarter is included in Schedule 1, then based upon the defined meaning of Construction Quarter in the Instrument, there is a requirement for the Regulator to update this value on an annual basis immediately upon release of AEMO’s Statement of Opportunities that occurs in or around September, rather than on an annual basis aligned to the release of the AEMO’s demand forecast in late June/early July.

Regarding the formal review schedule for the other inputs set by the Regulator, Aurora Energy requests that the Regulator consider providing further clarity on the source of each input, similar to that provided for the Forecast Inflation rate which clearly indicates a reference point that enables Retailers to manage the risk associated with a change to the input. Aurora Energy recognises that the Regulator will seek to link input values to verifiable, independent third party data. Further to this, Aurora Energy submits that to assist Retailers in managing the risk associated with a change to these inputs, that the Regulator consider including provision within the Statement for consultation with participants on the appropriateness of the independent third party data sources.