

Review of the Tasmanian Wholesale Electricity Market Regulatory Pricing Framework Terms of Reference

Background

A regulatory framework for Hydro Tasmania's contract offers in the Tasmanian wholesale electricity market has been in place since 1 January 2014.

The Department of Treasury and Finance will be responsible for the Review.

Purpose

Over recent months wholesale price volatility has been evident in mainland electricity markets due to a number of factors including the continued closure of coal-fired generation units, the impact of natural weather events that has placed pressure on electricity grid reliability and increasing domestic gas prices due to linkages to gas export markets.

The Government has concerns that the current Tasmanian wholesale electricity market settings are driving excessive growth and volatility in Tasmanian electricity prices despite there being no significant change in the cost of on-island generation. As a result the Government has agreed to review the current wholesale electricity market regulatory pricing framework.

Government's objectives

The Government's vision, as outlined in its Tasmanian Energy Strategy, is to restore energy as a competitive advantage for Tasmania by:

- delivering affordable energy at competitive and predictable prices that are amongst the lowest in Australia;
- empowering consumer choice;
- ensuring an efficient energy sector that is customer focussed;
- utilising energy to facilitate State growth; and
- maximising Tasmania's renewable energy opportunities.

Wholesale market regulation

No other NEM jurisdiction is equivalent to Tasmania in terms of the reliance on hydrological inflows for the generation of electricity. Similarly, in no other NEM jurisdiction is a single entity responsible for most generation output, have control of interconnector flows and is the dominant counterparty for wholesale contracts.

Hydro Tasmania's market position presents a number of potential challenges to retailers, which are unique to the Tasmanian region of the NEM. It is possible that this may create a perception that wholesale market risk is higher in Tasmania than in other NEM regions, which may deter the entry of private sector retailers into the Tasmanian market. To ensure that full retail contestability is effective in Tasmania, the Wholesale Contract Regulatory Instrument (WCRI) was introduced to provide confidence and certainty to electricity retailers.

Government Expectations

Key Government expectations for the Review are to:

- analyse whether the WCRI is operating as intended according to its original design;
- determine whether the WCRI is producing sub-optimal outcomes or unintended negative consequences;
- investigate the potential to reduce the impact of mainland wholesale price volatility on the WCRI;
- investigate alternative wholesale pricing mechanisms which may meet the Government's objectives;
- provide options to Government regarding potential improvements to the Tasmanian wholesale electricity market;
- in conducting the Review, retain the confidence of market participants in the stability of the Tasmanian electricity market and any changes to market settings; and
- to assist the government in the preparation and release of a consultation paper in relation to key issues.

Key Milestones

Quarter 1 2018	Preparation of an interim report to Government outlining the high level issues and identifying potential options which could be implemented in the short term to moderate any increase in Tasmanian wholesale prices resulting from the factors external to the State.
Quarter 2 2018	Completion of a report for Government that provides short and longer term potential reform options to the wholesale regulatory pricing framework and their associated costs, implementation issues, benefits and risks.

Consultation

Wide-ranging consultation will be required with market participants which will include generators, network providers, retailers and major consumers with direct market exposure. The Tasmanian Economic Regulator, the Australian Energy Market Operator, other Tasmanian Government agencies, other national regulatory bodies and other parties will be consulted as appropriate.

In the event that reforms are agreed by Government, any proposed changes to market operations will be subject to a period of further consultation with market participants by the Tasmanian Economic Regulator to obtain views and comments in relation to the potential impact of any proposed changes, and to ensure that the implementation of these changes is as smooth as possible. Due to the likely influence on wholesale contracting arrangements, consideration will be required to potentially phase in proposed changes to minimise contractual impacts.

Appointment of Advisers

Given the complex nature of the issues to be examined, Treasury may appoint external advisers to provide technical advice as required.

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