

Wholesale Electricity Regulatory Pricing Framework Review
Department of Treasury and Finance
GPO Box 147
HOBART TAS 7001

16th April 2019

Submitted via e-mail to: wholesale.pricing.framework@treasury.tas.gov.au

Dear Sir/Madam,

Review of the Tasmanian Wholesale Electricity Market Regulatory Pricing Framework

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to make a submission in response to the Department of Treasury and Finance’s *Review of the Tasmanian Wholesale Electricity Market Regulatory Pricing Framework Options Paper*.

The Energy Council is the industry body representing 23 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

The Energy Council understands that the Tasmanian Government is keen to ensure that customers’ costs are reflective of Tasmanian system costs, and the Energy Council supports this position, noting that the Government will need to carefully consider the methodology for setting the wholesale reference price to ensure system costs are reflective of the economic value of generation. The Energy Council also observes that in common with all cyclic markets, mainland prices may fall below Tasmanian wholesale prices in the future, and any mechanism should be designed to appropriately manage this situation if it occurs, particularly if the lower Victorian prices encourage more, cheaper imports and displace local generation. As an example, according to the Options Paper, this is forecast to occur over the next two years.¹ Therefore while local generation cost reflectivity is worthwhile, the proportion of imported generation and its cost needs to be considered in the component of any wholesale cost included in customers’ invoices.

As it stands, the current transparent, market-based wholesale contract pricing framework is the most effective means by which market participants, and prospective market participants, can be granted the confidence and flexibility necessary to manage wholesale market risk in Tasmania. The Energy Council believes that maintaining the current arrangement, which links the Wholesale Contract Regulatory Instrument to Victorian contract prices, is the best way to realise efficient wholesale prices for the Tasmanian market, and allow Tasmania to take advantage of the liquidity in the broader National Electricity Market. Such a linkage to the National Electricity Market will become even more useful with the development of Marinus Link and the Battery of the Nation.^{2,3}

In order to maintain this linkage with Victorian contracts, it is important for any proposed mechanism to retain flexible contracting arrangements, and, in order to achieve optimum efficiency, accept that prices will vary according to market conditions. The Energy Council therefore does not believe that Options 3 (Capped), 4 (Optional Contracts), 5 (Mandatory Contracts) and 6 (Tasmania NEM Trader) satisfy these requirements since they distort market signals to varying degrees. In addition, a consequence of the market distortion would be to compromise new generation investment in Tasmania, and therefore none of these options can be supported.

To achieve the desired government outcome of managing retail price outcomes, the Energy Council instead supports Option 2 (Refined Rebates). This option does not interfere with the wholesale market, yet still enables the Government to address perceived high prices with explicit rebates for customers. One of the advantages of this mechanism is that it can be targeted to customer segments most in need of assistance, according to the priorities of government, e.g. hardship customers or perhaps small businesses.

¹ Options Paper, p.11ff.


² <https://projectmarinus.tasnetworks.com.au/>

³ <https://www.hydro.com.au/clean-energy/battery-of-the-nation>

By retaining the existing Wholesale Electricity Market Regulatory Pricing Framework, market participants will continue to be able to efficiently manage wholesale market risk without market distortions. This will encourage new generation investment, and assist in the feasibility and development of Marinus Link and the Battery of the Nation project. The Energy Council believes that by adopting Option 2, wholesale market efficiencies will be maintained, and the Tasmanian Government's Energy Policy Objectives will best be satisfied.

Any questions about this submission should be addressed to the writer, by e-mail to Duncan.MacKinnon@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Duncan MacKinnon', with a long horizontal stroke extending to the right.

Duncan MacKinnon
Wholesale Policy Manager
Australian Energy Council