

Regulation of Hydro Tasmania's wholesale contracts

OBJECTIVES

To support retail competition, the Government is implementing a set of market arrangements that will place downward pressure on electricity prices for Tasmanian electricity customers and enable the companies that generate, distribute and retail electricity to operate in a financially sustainable manner.

FEATURES

The cost of purchasing wholesale electricity is a major component of electricity prices, accounting for around 40 per cent of an average customer's bill. Changes in the cost of purchasing electricity can have a significant impact on the electricity prices paid by customers.

Retailers purchase the electricity that they supply to customers from the National Electricity Market (NEM). Electricity prices in the NEM can fluctuate very rapidly in a short period of time and retailers seek to manage the volatility in prices by entering into financial contracts with the companies that generate electricity.

Hydro Tasmania will own almost all of the electricity generation in Tasmania and will be the main party from which retailers operating in Tasmania can purchase financial contracts.

To support competition, electricity retailers operating in Tasmania will require certainty that they can buy financial contracts from Hydro Tasmania, at competitive and transparent prices, and that they will all be treated equally.

The Government will provide this certainty by requiring Hydro Tasmania to offer a range of financial contracts and by regulating the prices at which these financial contracts are offered.

Regulating Hydro Tasmania's wholesale contracts will also benefit Tasmanian customers by ensuring that they pay a competitive price for the purchase of electricity.

REGULATORY FRAMEWORK

Financial contracts

The financial contracts that Hydro Tasmania will be required to offer to retailers in Tasmania are the same types of financial contracts that are used throughout the NEM.

Requiring Hydro Tasmania to offer a range of financial contracts will promote retail competition by enabling retailers operating in Tasmania to adopt different contracting strategies.

Contract pricing

Hydro Tasmania will be required to offer the financial contracts using a regulated pricing methodology. This methodology will produce market-based prices that reflect the supply and demand for electricity in Tasmania.

This will ensure that prices are efficient and provide price signals for future investment in the Tasmanian electricity industry.

Administration and oversight

The Tasmanian Economic Regulator will be responsible for ensuring that Hydro Tasmania offers its financial contracts at prices that are consistent with the regulated pricing methodology. The Regulator will have extensive powers to investigate Hydro Tasmania if it considers that this is not the case.

IMPACT ON HYDRO TASMANIA

The regulatory model will mean that Hydro Tasmania receives market-based prices for its financial contracts.

It will also preserve Hydro Tasmania's ability to capitalise on Tasmania's clean energy advantage in the NEM.

For more information visit our website at:
www.electricity.tas.gov.au