

20 June 2019

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001
RRO@aer.gov.au

Dear AER,

Draft AER Interim Qualifying Contracts and Firmness Guidelines

Hydro Tasmania welcomes the opportunity to provide a response to the Interim Qualifying Contracts and Firmness Guidelines. We note that the AER will publish the *final Interim Contracts and Firmness Guidelines* on 31 August 2019 and then, following further consultation, a final version of the *Contracts and Firmness Guideline* will be published by 31 December 2020. We look forward to working with the AER through this period to ensure the guidelines are effective and fulfil the objectives of the Retailer Reliability Obligation (RRO).

The Contracts and Firmness Guidelines are a crucial piece of the RRO framework. RRO liable entities must fully understand their compliance options and exposures if the costs of the RRO are to be minimised. The AER therefore needs to ensure that the prescriptive nature of the guidelines still allows some flexibility for participants where there are genuine bespoke hedging strategies that do not undermine the RRO's effectiveness.

Overall comments

Hydro Tasmania supports the approach of outlining standard contracts that can have a default firmness methodologies applied accompanied by the option of bespoke arrangements that can facilitate the broad range of contracting approaches in the market.

5. Default firmness methodologies for standard qualifying contracts

Hydro Tasmania supports the default methodologies for standard electricity Swaps and Caps and appreciate that the AER is looking for the least cost implementation. We agree that Caps with a higher strike price should be considered less firm as they provide less financial cover to the buyer and less incentive on the seller to invest in capacity.

In addition to the standard qualifying contracts structure we believe that liable entities should be afforded further flexibility where this does not undermine the intent of the RRO. Liable entities should have the choice of using standard methodologies for calculating firmness for contracts as set by AER or, if they choose to, should be able to use a bespoke methodology, which would have to be confirmed and signed off by the relevant qualified auditor. An example of where Hydro Tasmania thinks this would be beneficial is Option contracts.

7.3.3 Generation within vertically integrated retailers

The RRO has been designed with competition issues at front of mind - specifically, the potential of the RRO to exacerbate or affect competition issues. As a result, fair application of contract firmness in vertically integrated retailers is critical to ensure the RRO does not distort competitive outcomes. Hydro Tasmania broadly supports the proposed treatment under section 7.3.3 of the paper but encourages ongoing consultation to ensure this issue is fully understood and captured. The paper makes reference to fuel considerations on page 37 and uses hydro plant as an example. It is important to recognise that where fuel use is relatively flexible (as with hydro plant), it is likely that this capacity would be available, particularly if a specific reliability gap period had been forecast and communicated to the market.

Hydro Tasmania operates 30 hydropower stations. It is important that assessment of internal contracting takes into account circumstances where assets are operated as part of a portfolio. In particular, it would be detrimental to require contracts to be linked to particular historical plant performance, and more representative to look at portfolios as a whole. Hydro Tasmania supports AER continuing to undertake detailed consultation on the Qualifying Contracts and Firmness Guidelines. Please contact Colin Wain (colin.wain@hydro.com.au) should you require any further information on this submission.

Yours sincerely



Caroline Wykamp
Chief Commercial Officer