



GUIDELINE

**Standing offer price approval process in
accordance with the 2016 Standing Offer
Determination**

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GUIDELINE

Guideline on the use of the Economic Regulator's powers to regulate the provision of essential services

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1 BACKGROUND

Standing offer prices are the prices that a regulated offer retailer must charge small customers on mainland Tasmania (including Bruny Island) for services provided under standard retail contracts. At present, Aurora Energy Pty Ltd (Aurora Energy) is the only regulated offer retailer operating in the Tasmanian market.

The Aurora Energy Pty Ltd 2016 Price-regulated Retail Service Price Standing Offer Determination (2016 Standing Offer Determination) states that maximum standing offer prices must be determined with reference to a notional maximum revenue calculated in accordance with the 2016 Standing Offer Determination.

The 2016 Standing Offer Determination requires Aurora Energy to submit draft standing offer prices to the Regulator for approval in accordance with the *Electricity Supply Industry Act 1995* (ESI Act) and the annual standing offer price approval process. Under section 41 of the ESI Act, standing offer prices for small customers are not to be fixed or amended by the retailer unless a draft of the standing offer prices has been approved by the Regulator.

Since this Guideline was published in May 2016, the Government has made a number of changes to the ESI Act that affect the annual price approval process. The Guideline has been updated to reflect these changes.

In 2017, the *Electricity Supply Industry Amendment (Pricing) Bill 2017* introduced the following amendments to the ESI Act.

Section 40ABA of the ESI Act allows the Treasurer to issue an order to declare an alternative wholesale electricity price (WEP) to that calculated under the Wholesale Contract Regulatory Instrument.

Under section 40ABB of the ESI Act, the WEP order:

- removes the requirements set out in the Guideline for a non-uniform price change;
- Aurora Energy's proposal is no longer required to demonstrate compliance with the principles, criteria and requirements set out in the Standing Offer Price Strategy (Strategy);
- removes the requirement that the Regulator will only approve draft prices if satisfied that the prices comply with the Strategy; and
- removes the requirement in the 2016 Determination for changes to standing offer tariffs to comply with the Strategy.

The ESI Act was further amended in 2018¹ to:

- provide that the Regulator can only approve standing offer prices submitted to it that are no higher than the existing tariffs indexed by the percentage change in the Consumer Price Index (All Groups) Number for Hobart for the applicable financial years (Section 41(5));
- define that the applicable financial years to which the provision relates are 2018-19, 2019-20 and 2020-21 and also defines the mechanism for how the change in Consumer Price Index (All Groups) Number for Hobart is to be determined (Section 41(1AA));
- extend the application of the current retail price determination until 30 June 2021 (Section 40AA(8));
- extend the period for which a WEP order can be made by the Minister under the ESI Act by two years; and
- extend the requirement for an independent review of the operation of the WEP order provisions in the ESI Act by two years.

Under the 2016 Standing Offer Determination the retail margin component of the Notional Maximum Revenue is fixed for the regulatory period while the following components may be varied for each period in accordance with the 2016 Standing Offer Determination and this Guideline:

- the notional tariff base (NTB);
- distribution loss factor (DLF) and marginal loss factor (MLF);
- the wholesale electricity price (WEP) and the wholesale electricity cost (WEC);
- cost-to-serve²;
- under or over recoveries for pass through costs from a previous period covered by the 2013 Standing Offer Determination (CF);
- under or over recoveries for pass through costs from previous periods in the 2016 Standing Offer Determination (K);
- network costs (NC);
- metering costs (M);
- adjustments (A);

¹ *Electricity Supply Industry Amendment (Price Cap) Bill 2018.*

² The cost-to-serve per customer for Period 1 is set in the 2016 Standing Offer Determination and indexed for each of Periods 2, 3, 4 and 5 of the regulatory period to account for inflation.

- Australian Energy Market Operator (AEMO) charges for market participation and ancillary services; and
- renewable energy target (RET) costs.

This Guideline should be read in conjunction with:

- (a) the *Electricity Supply Industry Act 1995*;
- (b) the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*;
- (c) the 2016 Standing Offer Determination; and
- (d) the *Investigation to determine maximum standing offer prices for small customers on mainland Tasmania, Final Report, May 2016*.

2 PURPOSE

This Guideline sets out the annual standing offer price approval process for determining standing offer prices in accordance with the 2016 Standing Offer Determination.

3 APPLICATION

This Guideline takes effect from the date of issue and applies to Aurora Energy in its capacity as a Regulated Offer Retailer selling electricity under standard retail contracts to small customers on mainland Tasmania (including Bruny Island).

The Guideline ceases to have effect on completion of the Period 5 standing offer price approval process.

4 INTERPRETATION

In this Guideline:

“2013 Standing Offer Determination” means the standing offer determination made by the Regulator on 29 July 2013 as amended from time to time;

“Absolute Minimum Capacity Offer Volume” has the same meaning as it has in the Wholesale Contract Regulatory Instrument;

“Aurora Energy Pty Ltd” means Aurora Energy Pty Ltd ABN 85 082 464 622 and its successors;

“Authorised Retailer” has the same meaning as it has in the *Electricity Supply Industry Act 1995*;

“Consumer Price Index” or **“CPI”** means the All Groups CPI index number for the weighted average of eight capital cities, published by the Australian Statistician under the *Census and Statistics Act 1905 (Cwlth)* as amended from time to time (if the ABS does not, or ceases to, publish the index, then CPI will mean an index determined by the Regulator) (this definition does not apply with respect to Clause 5.2(1)(a) of this Guideline);

“Final Report” means the Regulator’s *Investigation to determine maximum standing offer prices for small customers on mainland Tasmania, Final Report, May 2016*;

“Load Following Swap” has the same meaning as it has in the Wholesale Contract Regulatory Instrument;

“non-uniform price change” means the same percentage price change is not applied to every component of every tariff;

“Notional Maximum Revenue” means the notional maximum revenue approved by the Regulator under the 2016 Standing Offer Determination for the relevant period;

“proposed new tariffs” means new standing offer tariffs proposed by Aurora Energy as part of the standing offer price approval process for Periods 1, 2, 3, 4 or 5 of the regulatory period;

“Regulator” has the same meaning as it has in the *Electricity Supply Industry Act 1995*;

“regulatory period” means the period from 1 July 2016 to 30 June 2021;

“relevant period” means each of the periods from 1 July 2016 to 30 June 2017, 1 July 2017 to 30 June 2018, 1 July 2018 to 30 June 2019, 1 July 2019 to 30 June 2020 and 1 July 2020 to 30 June 2021 as relevant;

“small customers” has the same meaning as it has in the *Electricity Supply Industry Act 1995*;

“standing offer price” has the same meaning as it has in the *Electricity Supply Industry Act 1995*;

“standing offer price approval process” means the annual standing offer price approval process set out in this Guideline;

“Standing Offer Price Strategy” means Aurora Energy’s 2016 Standing Offer Price Strategy;

“Standing Offer Pricing Proposal” means the annual pricing proposal Aurora Energy is required to submit for the Regulator’s approval in accordance with the obligations set out in this Guideline;

“typical customers” means a set of customers derived using the methodology described in the *Typical Electricity Customers Information Paper* released by the Office of the Tasmanian Economic Regulator in August 2010 and as amended from time to time;

“uniform price change” means the same percentage price change is applied to every component of every tariff;

“WEP order” has the same meaning as it has in the *Electricity Supply Industry Act 1995*;

“Wholesale Contract Regulatory Instrument” means the instrument that specifies the regulated contracts Hydro Tasmania must offer to Authorised Retailers operating in Tasmania. The instrument is the approval made by the Minister for Finance or the Regulator (as amended from time to time), in accordance with section 43G of the *Electricity Supply Industry Act 1995*, having taken into account the principles set out in section 43H of the *Electricity Supply Industry Act 1995*.

“2016 Standing Offer Determination” means the price-regulated retail service price determination issued on 5 May 2016 and as amended by the Regulator in accordance with the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*.

5 ANNUAL STANDING OFFER PRICE APPROVAL PROCESS

5.1 Standing Offer Pricing Proposal

- (1) Aurora Energy must submit a Standing Offer Pricing Proposal for the relevant period to the Regulator by 31 May in each year.
- (2) The Standing Offer Pricing Proposal must:
 - (a) set out and describe the tariffs and charges that will apply for the relevant period, including the terms and conditions that will apply to each tariff and charge;
 - (b) set out for each tariff the draft standing offer prices that are proposed to apply for the relevant period;
 - (c) detail and justify any proposed changes to the tariffs and charges including any changes to definitions, terms and conditions that are to apply;
 - (d) demonstrate the impact on a typical customer's electricity bill; and
 - (e) demonstrate how any proposed new tariffs, meet the following new tariff assessment criteria:
 - (i) the tariff is offered on an opt-in³ basis;
 - (ii) the tariff is subject to the same constraints on price movements as those that may apply to existing tariffs;
 - (iii) the tariff reflects the relevant underlying network tariffs;
 - (iv) the tariff is not linked to the provision of non-electricity services or products;
 - (v) the tariff promotes efficiency and competition in the electricity supply industry;
 - (vi) introduction of the new tariff is in the long-term interests of electricity customers;

³ References to customers opting in and choosing to be supplied under new standing offer tariffs do not relate to customers moving premises. Where customers move premises, Aurora Energy will impose charges based on standing offer tariffs that align with the meters installed at those premises. Customers in these circumstances wishing to change to other standing offer tariffs may incur a charge to change meters.

- (vii) the tariff price/s enables Aurora Energy to recover the cost of providing the product to a customer;
 - (viii) the description of the tariff and the terms and conditions are provided in clear, easily understood language;
 - (ix) Aurora Energy has consulted with its customers on the proposed new tariff; and
 - (x) adequate modelling has been conducted to determine the impact of the proposed new tariff on typical customers.
 - (f) if a tariff is proposed to be made obsolete or abolished:
 - (i) provide justification for making the tariff obsolete or abolished; and
 - (ii) specify the impact on customers;
 - (g) provide details of the methodologies used for calculating the Notional Maximum Revenue used to determine tariff prices, including CPI, pass-through and other adjustments permissible under the 2016 Standing Offer Determination attributable to small customers for the relevant period and an explanation of how each standing offer price will be affected by the impact of the changes;
 - (h) in the event the ABS changes the CPI index reference period, to maintain consistency, the applicable CPI under the new reference period must be converted back to the previous index period using conversion factors published by the ABS and rounded to one decimal place. The applicable CPI is to be calculated in accordance with clause 3 of the 2016 Standing Offer Determination and must be rounded to four decimal places;
 - (i) demonstrate compliance with:
 - (i) the 2016 Standing Offer Determination (including demonstrating that the expected revenue from the standing offer prices when applied to the proposed tariffs and notional tariff base for the relevant period does not exceed the Notional Maximum Revenue for the relevant period); and
 - (ii) this Guideline.
 - (j) be accompanied by an internal audit certificate and certified as correct by the Chairman and one other Director of Aurora Energy.
- (3) The Regulator will, after receiving Aurora Energy's Standing Offer Pricing Proposal, publish the Proposal on the Regulator's website.

5.2 Approval of standing offer prices

- (1) The Regulator will only approve the draft standing offer prices if satisfied that:
 - (a) the standing offer prices are no higher than the existing tariffs indexed by the percentage change in the Consumer Price Index (All Groups) Number for Hobart for the applicable financial year;
 - (b) the draft standing offer prices comply with the 2016 Standing Offer Determination;
 - (c) all forecasts and methodologies used to determine the draft standing offer prices are reasonable and have regard to the methodologies outlined in Table 3.3 of the Regulator's Final Report.
- (2) If the Regulator determines that the draft standing offer prices are deficient:
 - (a) Aurora Energy must resubmit draft standing offer prices within the requested timeframes with the modifications necessary to correct the identified deficiencies and (unless the Regulator permits further modification) no further modification; or
 - (b) the Regulator may make the modifications necessary to correct the deficiencies; or
 - (c) the Regulator may refuse to approve the draft standing offer prices or the draft amendment of the standing offer prices.
- (3) If Aurora Energy fails to comply with a requirement under clause 5.2(2)(a) of this Guideline, or the resubmitted draft standing offer price fails to correct the deficiencies in the former draft standing offer price, the Regulator may amend the draft standing offer price so as it conforms with the requirements of this Guideline, the 2016 Standing Offer Determination and the ESI Act.
- (4) Approved standing offer prices take effect at the commencement of the relevant period to which the standing offer prices relate.

6 PUBLICATION OF STANDING OFFER PRICES

- (1) In addition to any requirements imposed by the ESI Act, Aurora Energy must maintain on its website:
 - (a) a schedule of approved tariffs, standing offer prices and other charges;
 - (b) terms and conditions relating to each standing offer price; and
 - (c) terms and conditions relating to other charges.
- (2) The information specified in clause 6(a) of this Guideline must be posted on Aurora Energy's website as soon as practicable, and, in any case, before 1 July of the relevant period.

7 METHODOLOGIES

7.1 Estimating the Wholesale Electricity Price

- (1) If a WEP Order is in effect, the Regulator will use the wholesale electricity price set out in the WEP Order for Periods 4 and 5.
- (2) If a WEP Order is not in effect, the Regulator will use the following method to calculate the WEP for Periods 4 and 5:
 - (a) for those weeks where Hydro Tasmania is not required to offer regulated contracts, the respective Absolute Minimum Capacity Offer Volume will be set to zero and the Load Following Swap (LFS) price for that week will also be set to zero;
 - (b) multiply the weekly regulated LFS price by the weekly Absolute Minimum Capacity Offer Volume for that quarter for eight quarters preceding the start of each quarter of the relevant period;
 - (c) use the weekly point-in-time LFS price for each quarter of the relevant period at the time that the Economic Regulator calculates the WEP for all future weeks remaining in each quarter for which there are no regulated LFS prices; and
 - (d) divide the sum of the values calculated in accordance with clauses 7.1(2)(b) and 7.1(2)(c) by the sum of the weekly Absolute Minimum Capacity Offer Volumes for the eight quarters preceding the start of each quarter of the relevant period.
- (3) The Regulator will provide the WEP, calculated in accordance with the method outlined in clause 7.1(2) for the relevant period, to Aurora Energy, not less than seven days prior to 30 May in each year.

7.2 Revising the Notional Tariff Base

- (1) The following methodology is to be adopted in estimating the Notional Tariff Base (NTB) for Periods 1, 2, 3, 4 and 5:
 - (a) Period 1: the Regulator will assess Aurora Energy's forecast NTB for Period 1 taking into account the actual customer number data Aurora Energy has reported to the Australian Energy Regulator for the quarter ending 31 March 2016;
 - (b) Period 2: the Regulator will assess Aurora Energy's forecast NTB for Period 2 taking into account the actual customer number data reported by Aurora Energy to the Australian Energy Regulator for the quarter ending 31 March 2017;

- (c) Period 3: the Regulator will assess Aurora Energy's forecast NTB for Period 3 taking into account the actual customer number data reported by Aurora Energy to the Australian Energy Regulator for the quarter ending 31 March 2018;
 - (d) Period 4: the Regulator will assess Aurora Energy's forecast NTB for Period 4 taking into account the actual customer number data reported by Aurora Energy to the Australian Energy Regulator for the quarter ending 31 March 2019;
 - (e) Period 5: the Regulator will assess Aurora Energy's forecast NTB for Period 5 taking into account the actual customer number data reported by Aurora Energy to the Australian Energy Regulator for the quarter ending 31 March 2020.
- (2) In each of its annual pricing proposals for Periods 1, 2, 3, 4 and 5, Aurora Energy is to submit details of its forecast load that relate to the customer numbers it submits in accordance with clauses 7.2(1)(a), 7.2(1)(b), 7.2(1)(c), 7.2(1)(d) and 7.2(1)(e) respectively.

7.3 Calculating adjustments

(1) The following method is to be used to calculate an adjustment (ie the A_y component of the NMR) under Regulations 12 and 16 of the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*:

- (a) if the adjustment is due to an error, or omission, the value of the adjustment is to be calculated with reference to the impact of the error on the NMR ie the NMR will be recalculated incorporating the correct component but with all other components held constant. The difference between the original NMR and the recalculated NMR will be the value of the adjustment; and
 - (b) in all other cases, the adjustment is to be calculated using a method approved by the Regulator.
- (2) The adjustment may include an allowance for the applicable retail margin.