

APPENDIX 1

RETAILER A

STANDING OFFER DETERMINATION



**REGULATED OFFER RETAILER A
(CUSTOMER BUNDLE 1)**

INTERIM PRICE-REGULATED RETAIL SERVICE PRICE DETERMINATION

Issued
29 July 2013

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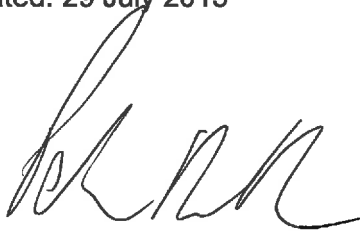
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The Tasmanian Economic Regulator –

- (a) having conducted an investigation under Regulation 7 of the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013* into the maximum prices that may be charged by Retailer A under standard retail contracts in respect of small customers; and
- (b) having complied with the *Electricity Supply Industry Act 1995* and Regulations 8(2) and 8(3) of the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*;

makes the following Determination under section 40AA of the *Electricity Supply Industry Act 1995*.

Dated: 29 July 2013

A handwritten signature in black ink, appearing to read 'Peter Hoult', written in a cursive style.

Peter Hoult
Acting Chairman
TASMANIAN ECONOMIC REGULATOR

PART 1 – PRELIMINARY

Commencement date, effective date and expiry date

1. In accordance with Regulation 8(3) of the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*, this Determination takes effect on 1 January 2014 and remains in effect to 30 June 2016.

Interpretation

2. (a) Unless the contrary intention appears, an expression used in this Determination has the same meaning as it has in the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*.

(b) In this Determination –

“**AEMO**” means the Australian Energy Market Operator ABN 94 072 010 327;

“**AEMO charges**” mean the annual charges imposed on National Energy Market participants by AEMO;

“**adjustment**” has the same meaning as it has in the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*;

“**annual standing offer price approval process**” means the process outlined in any guideline issued by the Regulator relating to the approval of standing offer prices under this Determination;

“**CPI**” (Consumer Price Index) means the All Groups CPI index number for the weighted average of eight capital cities, published by the Australian Bureau of Statistics under the *Census and Statistics Act 1905 (Cwlth)* (as amended from time to time);

“**curtilage discount**” means the annual discount available under Tariff 22 as specified in Schedule 1 in respect of fixed daily charges for the second and subsequent connection points on a single farm house block;

“**Customer bundle 1**” comprises the customers and associated load as specified in the notional tariff base in Table 1 and in Schedule 2 (as adjusted by the annual standing offer price approval process);

“**GWh**” means gigawatt-hour (one gigawatt-hour is equivalent to 1 000 megawatt-hours or 1 000 000 kilowatt-hours);

“**interim pricing period**” means the period commencing on 1 January 2014 to 30 June 2016;

“**kVA**” means KiloVolt-Ampere (kVA measures the apparent energy being consumed and is used to measure demand);

“**kWh**” means a kilowatt hour, the amount of energy used at a constant rate of one kilowatt for one hour (one kilowatt-hour is equivalent to 1 000 watt hours);

“**MW**” means megawatt;

“**MWh**” means megawatt hour (one megawatt-hour is equivalent to 1 000 kilowatt-hours);

“**network tariff**” means the applicable schedule of tariffs (including the rate or rates) as approved by the Australian Energy Regulator, the regulated offer retailer uses to calculate the amount it charges customers, or a class of customers, for network services and metering services, as amended from time to time;

“**notional maximum revenue**” means Retailer A’s notional maximum revenue as calculated for each of Period 1, Period 2 and Period 3 in accordance with the formula in clause 7;

“**notional tariff base**” means the components detailed in Table 1 and in Schedule 2 (as adjusted by the annual standing offer price approval process);

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

“**Period 1**” means the period commencing on 1 January 2014 to 30 June 2014;

“**Period 2**” means the period commencing on 1 July 2014 to 30 June 2015;

“**Period 3**” means the period commencing on 1 July 2015 to 30 June 2016;

“**prescribed inflationary factor**” has the same meaning as it has in clause 3 of this Determination;

“**regional reference node**” has the same meaning as it has in the National Electricity Rules;

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

“**Regulator**” means the Tasmanian Economic Regulator, established under the *Economic Regulator Act 2009*;

“**retail margin**” means the Regulator’s allowance to compensate Retailer A for its investment in the business and the risks it assumes in providing standard retail services to small customers;

“**Retail Tariff Strategy**” means Aurora Energy’s *Final Revised Retail Tariff Strategy* (April 2011) approved by the Regulator in June 2011;

“**Retailer A**” means the retailer declared to be a regulated offer retailer in respect of Customer bundle 1;

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

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

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

“**wholesale electricity price**” means the Regulator’s estimate of the price Retailer A pays to purchase electricity for the purpose of providing standard retail services to small customers; and

“**Wholesale Contract Regulatory Instrument**” means the instrument that specifies the regulated contracts Hydro Tasmania must offer to regulated offer retailers. The instrument is a set of approvals that will be made by the Minister for Finance, in accordance with sections 43G and 43O of the *Electricity Supply Industry Act 1995* and Regulation 20 of the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*, having taken into account the principles set out in section 43H of the ESI Act.

Prescribed inflationary factor

3. For the purposes of this Determination, the prescribed inflationary factor is to be calculated as follows:

$$(a) \text{ Period 2} = \left(\frac{\text{CPI}_{\text{Mar}2014} + \text{CPI}_{\text{Dec}2013} + \text{CPI}_{\text{Sep}2013} + \text{CPI}_{\text{Jun}2013}}{\text{CPI}_{\text{Mar}2013} + \text{CPI}_{\text{Dec}2012} + \text{CPI}_{\text{Sep}2012} + \text{CPI}_{\text{Jun}2012}} \right)$$

$$(b) \text{ Period 3} = \left(\frac{\text{CPI}_{\text{Mar}2015} + \text{CPI}_{\text{Dec}2014} + \text{CPI}_{\text{Sep}2014} + \text{CPI}_{\text{Jun}2014}}{\text{CPI}_{\text{Mar}2013} + \text{CPI}_{\text{Dec}2012} + \text{CPI}_{\text{Sep}2012} + \text{CPI}_{\text{Jun}2012}} \right)$$

The subtext (for example, ‘CPI_{Mar 2014}’) when used in relation to the above means the CPI for the March quarter in year 2014.

PART 2 – MAXIMUM PRICES

Calculation of maximum prices

4. The maximum prices which may be charged by Retailer A in respect of standard retail services provided to small customers under standard retail contracts during the term of this Determination are to be calculated in accordance with the principles outlined in clause 6.

Approval of standing offer prices under this Determination

5. Draft standing offer prices are to be submitted to the Regulator for approval in accordance with the *Electricity Supply Industry Act 1995* and the annual standing offer price approval process.

Notional Maximum Revenues

6. (a) In Period 1, for the purposes of this clause and clause 7, the notional tariff base consists of the components detailed in Schedule 2.
 - (b) In Period 2 and Period 3 for the purposes of this clause and clause 7, the notional tariff base will be adjusted in accordance with revised forecasts of the notional tariff base as part of the annual standing offer price approval process for each relevant period.
 - (c) The maximum prices Retailer A may charge small customers are to be determined in accordance with the principle that if each price was applied to each component of the notional tariff base, the result must not exceed the notional maximum revenue calculated in accordance with clause 7.
 - (d) The maximum prices determined under clause 6(c) are subject to clauses 8, 9 and 10.
7. For the purposes of clause 4 and clause 6, the notional maximum revenue (NMR_y) for Period 1, Period 2 and Period 3 is calculated in accordance with the following formula:

$$NMR_y = (R_y + NC_y + AEMO_y + RET_y + K_y + A_y) \times (Margin_y)$$

Where:

NMR_y is the notional maximum revenue for the notional tariff base as specified in Table 1 (as adjusted by the annual standing offer price approval process)

and

y is the period (i.e. Period 1, Period 2 or Period 3)

$$R_y = \text{[forecast small customer load}_y \times \text{MLF}_y \times \text{DLF}_y] \times \text{[wholesale electricity price}_y] + \text{[cost to serve}_y \times \text{forecast number of small customers}_y]$$

where: the forecast small customer load and forecast number of small customers for the notional tariff base, for Period 1, are as set out in Table 1.

Table 1: Notional tariff base - forecast small customer loads and small customer numbers

	Period 1	Period 2	Period 3
Small customer load (GWh)	512.29	1 133.53	1 119.47
Small customers (number)	110 570	109 527	108 653

The customer numbers and load for Period 2 and Period 3 will be revised based on updated forecasts during the annual standing offer price approval process for each of those periods.

MLF_y means the load weighted average marginal loss factor at the regional reference node for Tasmania for the relevant period as approved by the Regulator.

DLF_y means the load weighted average distribution loss factor for the relevant period as approved by the Regulator.

$cost\ to\ serve_y$ means the amount estimated to be the cost to serve each small customer during each period as presented in Table 2, escalated by the appropriate prescribed inflationary factor.

Table 2: Cost to serve_y (real 2012-13\$)

	Period 1	Period 2	Period 3
cost to serve_y (\$/customer)	60.80	139.55	152.00

The cost to serve allowance will not be adjusted as part of the annual standing offer price approval process.

$wholesale\ electricity\ price_y$ means, for Period 1, the price as set out in Table 3. The Regulator will estimate revised wholesale electricity prices for Period 2 and Period 3 during the annual standing offer price approval process to account for the difference between the forecast wholesale electricity prices for Period 2 and Period 3 outlined in Table 3 and the revised prices calculated for those periods in accordance with a methodology that complies with the principles contained within the Wholesale Contract Regulatory Instrument.

Table 3: Wholesale electricity price_y (nominal\$)

	Period 1	Period 2	Period 3
wholesale electricity price_y (\$/MWh)	74.97	62.62	59.95

NC_y means the network costs as set out in Table 4 for Period 1 derived by multiplying network tariffs_y by the notional tariff base_y. The Regulator will estimate revised network costs for Period 2 and Period 3 during the annual standing offer price approval process to account for the difference between the forecast network

costs for Period 2 and Period 3 outlined in Table 4 and the revised costs calculated for those periods.

Table 4: Network costs (nominal\$)

	Period 1	Period 2	Period 3
Network costs (\$/MWh)	132.16	134.70	140.43
Network costs_y (\$m)	67.70	152.69	157.20

AEMO_y means the forecast charges, as billed by AEMO for market participation and ancillary services for Period 1 as set out in Table 5. The Regulator will estimate revised AEMO charges for Period 2 and Period 3 to account for the difference between the forecast AEMO charges for Period 2 and Period 3 outlined in Table 3 and the updated forecasts during the annual standing offer price approval process for each of those periods.

Table 5: Forecast AEMO charges (nominal\$)

	Period 1	Period 2	Period 3
AEMO (\$/MWh)	1.16	1.19	1.22
AEMO_y (\$m)	0.59	1.35	1.36

RET_y means the forecast cost of complying with the Australian Government's mandatory renewable energy schemes for Period 1 as set out in Table 6. The Regulator will estimate revised RET costs for Period 2 and Period 3 to account for the difference between the forecast RET costs for Period 2 and Period 3 outlined in Table 6 and the updated forecasts during the annual standing offer price approval process for each of those periods.

Table 6: Forecast RET costs (nominal\$)

	Period 1	Period 2	Period 3
RET (\$/MWh)	7.45	7.61	8.20
RET_y (\$m)	3.81	8.63	9.18

A_y is an adjustment calculated in accordance with a methodology approved by the Regulator consistent with Regulation 12 and Regulation 16 of the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*.

K_y means over or under recoveries from a previous period covered by this Determination in relation to changes in network costs, RET costs and AEMO charges attributable to the notional tariff base as approved by the Regulator.

Margin_y means the factor applied to total costs in each period as set out in Table 7.

Table 7: Margin

	Period 1	Period 2	Period 3
Margin (nominal \$/MWh)	12.01	12.40	13.15
Margin_y	1.051	1.055	1.057

The retail margin factor will not be adjusted as part of the annual standing offer price approval process.

SCHEDULE 1 – STANDING OFFER PRICE STRUCTURE

Tariffs	Category	Description
31	Residential	Residential Light and Power
41	Residential	Hot Water
42	Residential	HydroHeat (hot water and space heating)
61	Residential	Off-Peak afternoon boost
62	Residential	Off-Peak night only
22	Business	General
34	Business	Nursing Home light and power
43	Business	Institutional hot water
73	Business	Irrigation low rate
74	Business	Irrigation high rate
75	Business	Irrigation (Time-of-Use)
82	Business	Monthly kVA demand low voltage
83	Business	Industrial kW demand low voltage
85	Business	Monthly kVA demand high voltage
86	Business	Industrial kW demand high voltage

SCHEDULE 2 – NOTIONAL TARIFF BASE BY PERIOD

SCHEDULE 2(a) – NOTIONAL TARIFF BASE PERIOD 1: 1 JANUARY 2014 TO 30 JUNE 2014

RESIDENTIAL	Energy - Step 1 kWh	Energy - Step 2 kWh	Energy - Step 3 kWh	Demand kW/kVA	Billing Days
Tariff					
31	182 905 633				17 796 870
41	51 809 946				6 304 662
42	137 170 424				9 799 426
61	12 826 375				1 468 376
62	1 679 554				169 442
BUSINESS	Energy - Step 1 kWh	Energy - Step 2 kWh	Energy - Step 3 kWh	Demand kW/kVA	Billing Days
Tariff					
22 ¹	11 459 737	96 792 855			2 915 640
34	7 516	7 461	149 013		1 092
43	2 802 971				113 750
73	5 422 790				177 996
74	4 165 241				182 364
75					4 368
82	2 639 430			483	6 006
83	2 445 137			394	8 190
85					182
86	9 804			4	182

Note 1: condition (d) under Tariff 22 is to reflect a curtilage discount of 40 per cent to the standard daily charge.

SCHEDULE 2(b) – NOTIONAL TARIFF BASE PERIOD 2: 1 JULY 2014 TO 30 JUNE 2015

RESIDENTIAL	Energy - Step 1 kWh	Energy - Step 2 kWh	Energy - Step 3 kWh	Demand kW/kVA	Billing Days
Tariff					
31	405 837 000				35 161 609
41	114 420 000				12 456 239
42	304 912 000				19 360 909
61	28 489 000				2 901 098
62	3 715 000				334 769
BUSINESS	Energy - Step 1 kWh	Energy - Step 2 kWh	Energy - Step 3 kWh	Demand kW/kVA	Billing Days
Tariff					
22 ²	25 199 385	212 842 615			5 750 017
34	16 318	16 197	323 485		2 157
43	6 138 000				224 738
73	11 755 000				351 670
74	9 035 000				360 300
75					8 630
82	5 603 000			477	11 866
83	5 206 000			391	16 181
85					360
86	21 000			4	360

Note 2: condition (d) under Tariff 22 is to reflect a curtilage discount of 30 per cent to the standard daily charge.

SCHEDULE 2(c) – NOTIONAL TARIFF BASE: PERIOD 3: 1 JULY 2015 – 30 JUNE 2016

RESIDENTIAL	Energy - Step 1 kWh	Energy - Step 2 kWh	Energy - Step 3 kWh	Demand kW/kVA	Billing Days
Tariff					
31	400 895 000				35 406 606
41	113 505 000				12 543 031
42	302 477 000				19 495 811
61	28 242 000				2 921 312
62	3 672 000				337 102
BUSINESS	Energy - Step 1 kWh	Energy - Step 2 kWh	Energy - Step 3 kWh	Demand kW/kVA	Billing Days
Tariff					
22 ³	24 768 319	209 201 681			5 791 615
34	15 859	15 742	314 399		2 172
43	6 014 000				226 304
73	11 361 000				354 120
74	8 730 000				362 810
75					8 690
82	5 291 000			470	11 949
83	4 943 000			388	16 294
85					362
86	21 000			4	362

Note 3: condition (d) under Tariff 22 is to reflect a curtilage discount of 20 per cent to the standard daily charge.

PART 3 – MISCELLANEOUS PROVISIONS

Curtilage discount

8. Retailer A is required to provide curtilage discounts in each period as set out in Table 8.

Table 8: Curtilage discounts

	Period 1	Period 2	Period 3
Curtilage discount (%)	40	30	20

Tariff schedule and pricing structure

9. The pricing structure adopted by Retailer A for its standing offer prices is to be consistent with the standing offer tariff types listed in Schedule 1 of this Determination for the duration of the interim pricing period.

10. Retailer A is required to maintain, in its standing offer prices, the relativities that exist as at 1 July 2013 (as detailed in the Retail Tariff Strategy) between fixed and variable charges and between residential and business tariffs for the duration of the interim pricing period.

Interpretation of the Determination

11. Any question arising from the interpretation of this Determination shall be determined by the Regulator.

This Determination is administered by the Regulator.