



**PRICING PROPOSAL FOR PERIOD 5 OF  
THE 2016 STANDING OFFER PRICE  
DETERMINATION**

**1 JULY 2020 – 30 JUNE 2021**

## Pricing Proposal Overview

This document represents Aurora Energy's Pricing Proposal to the Tasmanian Economic Regulator (Regulator) outlining the maximum prices that it proposes to charge its regulated Standing Offer customers during the period 1 July 2020 to 30 June 2021 (Period 5 of the 2016 Standing Offer Price Determination).

Aurora Energy has proposed to apply a **uniform price decrease of 1.38 per cent** to all Standing Offer tariffs at 1 July 2020. This is in accordance with the requirements of the *Electricity Supply Industry Act 1995*, which stipulates that price increases for Standing Offer Tariffs do not exceed the movement in the Consumer Price Index for Hobart.

For 2020-21, Aurora Energy proposes the total Notional Maximum Revenue (NMR) to be **\$548,684,631**, an increase of 2.1 per cent relative to the 2019-20 NMR of **\$537,423,543**.

There are a number of key movements in the 2020-21 NMR. Important context to interpreting the movements is the notable increase in both the Standing Offer customer numbers and load forecast, resulting from the completion of the decommissioning of the Aurora Pay as You Go market product.

Due to these increases, a number of input costs have not decreased on a total basis in line with the decreases on a per unit basis.

A prime example is Network costs, which have decreased by 5.3 per cent on average on per unit basis when compared to 2019-20, however its total contribution to NMR has only decreased by 1.5 per cent from \$213,246,702 to \$209,953,355 in 2020-21.

Wholesale Energy costs decreased by 6.0 per cent from \$201,854,453 in 2019-20 to \$189,760,758 in 2020-21. All other inputs increased, including the Aggregate Over/Under Recoveries. Under the 2016 Standing Offer Price Determination, Aurora Energy is allowed to adjust for under or over recoveries in relation to a number of costs that are based on estimates. These costs include Renewable Energy Costs, AEMO Charges and Metering Costs. In 2019-20 Aurora Energy passed back \$3.1M to customers, however in 2020-21 Aurora Energy is recovering \$7.7M driven primarily by Renewable Energy Target (RET) under recoveries from unfavourable market movements compared to forecast.

In this Proposal, Aurora Energy has made one notable non-price change to the Tariff Schedule to confirm that:

- Residential Time-of-use - Tariff 93 will be the default tariff for new connections of low voltage installations for private residential dwellings; and

- Business Time of Use - Tariff 94 will be the default tariff for new connections of low voltage installations for private non-residential dwellings.

Aurora Energy does not propose to introduce any new tariffs or abolish any existing tariffs.

## 1. Notional Maximum Revenue Calculation

Aurora Energy's Notional Maximum Revenue (NMR) for Period 5 has been calculated in accordance with the following methodology prescribed in the 2016 Standing Offer Price Determination:

$$\text{NMR}_y = (\text{R}_y + \text{WEC}_y + \text{NC}_y + \text{M}_y + \text{AEMO}_y + \text{RET}_y + \text{K}_y) \times \text{Margin}_y + \text{A}_y + \text{CF}_y$$

where:

**NMR<sub>y</sub>** is the notional maximum revenue for the notional tariff base;

**R<sub>y</sub>** represents the cost to serve;

**WEC<sub>y</sub>** represents wholesale electricity costs;

**NC<sub>y</sub>** represents network charges;

**M<sub>y</sub>** represents metering costs;

**AEMO<sub>y</sub>** represents market participant fees and ancillary services;

**RET<sub>y</sub>** represents the cost of complying with the Australian Government's mandatory renewable energy schemes;

**K<sub>y</sub>** is an aggregate of under and/or over recoveries for network costs, metering costs, RET and AEMO charges from previous periods covered by the 2016 Standing Offer Price Determination;

**Margin<sub>y</sub>** represents a return on total costs;

**A<sub>y</sub>** represents any adjustments calculated in accordance with a methodology approved by the Regulator; and

**CF<sub>y</sub>** is an aggregate of under and/or over recoveries from previous periods covered by the 2013 Standing Offer Price Determination

The following sections outline the calculation of each component in the NMR formula.

## 1.1 Cost to Serve (R<sub>y</sub>)

R<sub>y</sub> has been calculated as follows:

*[Cost to Serve<sub>y</sub> x Prescribed Inflationary Factor x forecast number of small customers]*

Parameter	Value	Source
Cost to Serve <sub>y</sub>	\$148.35 per customer	2020-21 (Period 5) Cost to Serve (representing the \$138.45 set in the 2016 Standing Offer Price Determination as inflated by the Period 2, Period 3, Period 4 and Period 5 Prescribed Inflationary Factors)
Prescribed Inflationary Factor	1.018	Calculated in accordance with 2016 Standing Offer Price Determination.
Forecast Customer Numbers	274,890	Reported to the AER as at 31 March 2020 (per 7.2 of Standing Offer Price Approval Guideline – 28 March 2019).
<b>R<sub>y</sub></b>	<b>\$40,780,132</b>	

## 1.2 Wholesale Electricity Cost (WEC<sub>y</sub>)

WEC<sub>y</sub> has been calculated as follows:

*[Forecast Small Customer Load<sub>y</sub> x MLF<sub>y</sub> x DLF<sub>y</sub> x WEP<sub>y</sub>]*

Parameter	Value	Source
Forecast Small Customer Load <sub>y</sub>	2,270.82 GWh	Aurora Energy 2020-21 Load Forecast
MLF <sub>y</sub>	0.9989	AEMO published loss factors.
DLF <sub>y</sub>	1.0507	AEMO published loss factors.
WEP <sub>y</sub>	\$79.62/MWh	The WEP has been calculated by the Regulator as at 19 May 2020 for Period 5 in accordance with the method outlined in clause 7.1(2) of the <i>Standing Office Price Approval Guideline</i> , March 2019.
<b>WEC<sub>y</sub></b>	<b>\$189,760,758</b>	

### 1.3 Network Costs (NC<sub>y</sub>)

NC<sub>y</sub> has been calculated by multiplying TasNetworks' approved network prices for 2020-21 (network tariffs<sub>y</sub>) multiplied by the notional tariff base<sub>y</sub> for 2020-21. This results in total network costs of **\$209,953,355** for Period 5.

### 1.4 Forecast Metering Costs (M<sub>y</sub>)

The following table provides a detailed breakdown of the forecast metering costs (M<sub>y</sub>) calculated:

Detailed breakdown of Forecast Metering Costs (M <sub>y</sub> )	
TasNetworks direct metering charges relating to Type 6 basic meter installations	\$11,210,997
Metering Coordinator direct metering charges relating to Type 4 and Type 4A advanced meter installations	\$8,932,530
<b>Total Direct Metering Costs</b>	<b>\$20,143,527</b>
Fee-Based Services	\$563,142
Recovery of capital costs incurred to comply with AEMO's market system changes	\$548,823
<b>Total M<sub>y</sub></b>	<b>\$21,255,492</b>

#### *Direct Metering Costs*

Metering costs are calculated on the basis that Aurora Energy (through its appointed Metering Coordinator, Metering Dynamics) will install 32,665 Type 4 and Type 4A advanced meters in 2020-21 on top of the forecast 57,309 installed as at 30 June 2020. On this basis, the annual metering charges associated with these installations is forecast to amount to \$8.9M, with approximately \$11.2M in annual charges relating to TasNetworks' existing Type 6 meters (including the recovery of capital charges associated with Type 6 meters replaced with Type 4 and Type 4A advanced meters).

#### *One-off, fee-based service charges for advanced meters*

Consistent with 2019-20, the following one-off, fee based service charges have been included in NMR:

- High-gain Antenna Installation;

- Conversion of a Type 4A to a Type 4 meter;
- Isolate at the service fuse (usually at the point of supply);
- On-site on-demand read for a Type 4a non-communications enabled meter (not customer requested); and
- “Regional” and “Remote” site service surcharge.

These one-off, fee-based service charges are estimated to total approximately \$0.6M in 2020-21.

*Recovery of capital and operating costs incurred to comply with AEMO’s market system changes*

In its calculation of  $M_y$  in 2020-21, Aurora Energy included the recovery of capital costs incurred to comply with AEMO’s market system changes. This was calculated at the applicable depreciation rate as approved by the TER in its decision on 26 May 2017 (i.e. over a period of six years) on a pro-rata basis from 1 December 2017. In 2020-21, approximately \$0.5M has been included in 2020-21  $M_y$  representing a full year of depreciation.

Based on the total estimated direct metering charges, one-off fee-based services and the recovery of capital costs associated with AEMO market compliance,  $M_y$  has been calculated as **\$21,255,492**.

**1.5 Forecast AEMO Costs ( $AEMO_y$ )**

$AEMO_y$  is calculated by applying indexation to the 2019-20 relevant fees published by the Australian Energy Market Operator for market participation (note that no draft 2020-21 fees have been released by AEMO at the time of preparing this proposal) as well as an estimate for ancillary charges based on ancillary costs for May 2019 to April 2020.

$AEMO_y$  has been calculated as **\$2,722,720** for Period 5.

**1.6 Renewable Energy Costs ( $RET_y$ )**

$RET_y$  has been calculated by:

- adopting the Clean Energy Regulator’s published 2020 Calendar Year Renewable Power Percentage (RPP) for all of 2020-21;
- adopting the Clean Energy Regulator’s binding and non-binding Small-scale Technology Percentage (STP) for the first half and second half of 2020-21 respectively; and

- applying the RPP and STP to forecast prices for Large-Scale Generation Certificates (LGC) and Small-Scale Technology Certificates (STC) respectively.

When applied to Aurora Energy’s liable customer load and estimated renewable certificate costs,  $RET_y$  for Period 5 has been calculated as **\$46,957,865**.

### 1.7 Aggregate Over/Under Recoveries from 2016 Standing Offer Price Determination ( $K_y$ )

$K_y$  is estimated to be an under-recovery of **\$7,665,827** which is primarily driven by higher LGC market and portfolio prices for 2019-20 compared to the initial estimates in the pricing proposal for Period 4. Higher than forecast advanced meter costs and increased AEMO charges are also contributing to the under-recovery.

Parameter	Value
$REC_y$ Final Adjustment 2018-19	\$879,350
$REC_y$ Preliminary Adjustment 2019-20	\$4,604,648
$AEMO_y$ Final Adjustment 2018-19	\$14,789
$AEMO_y$ Preliminary Adjustment 2019-20	\$679,953
Metering, Final Adjustment 2018-19	(\$103,056)
Metering, Preliminary Adjustment 2019-20	\$1,590,144
<b><math>K_y</math></b>	<b>\$7,665,827</b>

### 1.8 Aggregate Over/Under Recoveries from 2013 Standing Offer Price Determination ( $CF_y$ )

Aggregate Over / Under Recoveries relating to the 2013 Standing Offer Price Determination were finalised during 2017-18 and are therefore not applicable in 2020-21.

### 1.9 Retail Margin ( $Margin_y$ )

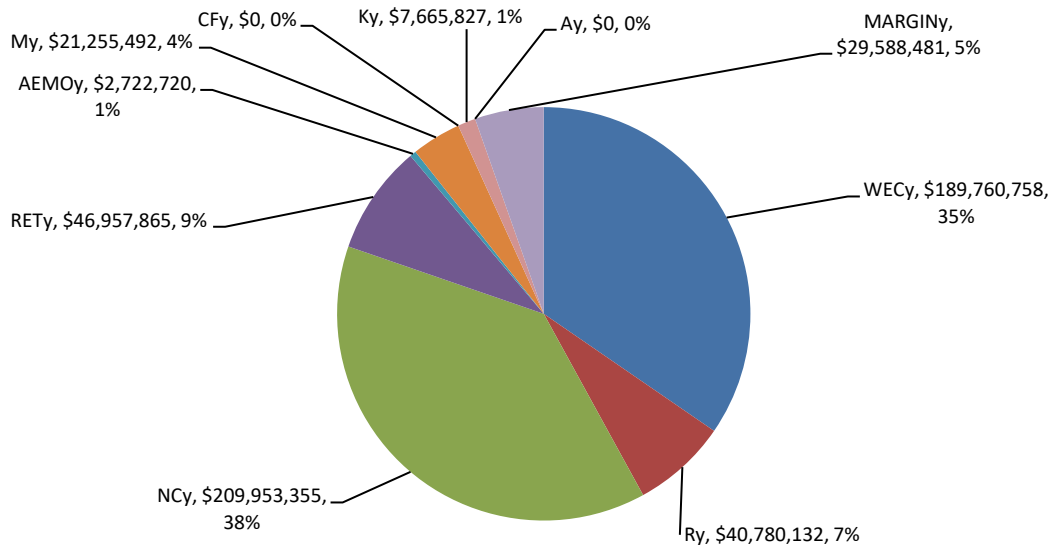
$Margin_y$  is calculated as 5.7 per cent of total costs (excluding  $A_y$ ) and is estimated to be **\$29,588,481** for Period 5.

### 1.10 Summary 2020-21 NMR

Taking into account the calculation of each individual cost component, Aurora Energy’s total NMR for 2020-21 is **\$548,684,631**. This is an increase of 2.1 per cent relative to the 2019-20 NMR of **\$537,423,543**. The following chart shows the total NMR proposed for Aurora Energy for 2020-21 by cost component.



Figure 1 – 2020-21 NMR



## **2. Non-Price Related Proposals**

The following sections provide an overview of non-pricing considerations for 2020-21. A proposed Tariff Schedule is also provided to the Regulator alongside the 2020-21 Price Proposal.

### **2.1 Approach to submission of terms and conditions for approval**

The Price Approval Guideline (Guideline) places an obligation on Aurora Energy to provide the terms and conditions of tariffs on its website.

Consistent with the approach in 2019-20, Aurora Energy proposes to publish an advertisement confirming there will be a price decrease of 1.38 per cent from 1 July 2020 and that further details are available on the Aurora Energy website or by phoning Aurora Energy, with website and contact details provided.

On the website, an A4 sized document stipulating the new prices effective from 1 July 2020 will be available for customers as required by the Guideline and the National Energy Retail Law.

### **2.2 Changes to Tariff Schedule Terms and Conditions**

The Price Approval Guideline requires Aurora Energy to set out the terms and conditions that will apply to each tariff and charge. Aurora Energy must detail and justify any proposed changes to the terms and conditions that are to apply for the relevant period.

Aurora Energy has made one notable non-price change to the Tariff Schedule to confirm that:

- Residential Time-of-use - Tariff 93 will be the default tariff for new connections of low voltage installations for private residential dwellings; and
- Business Time of Use - Tariff 94 will be the default tariff for new connections of low voltage installations for private non-residential dwellings.

This change supports the broader industry move towards the uptake of time of use tariffs and provides customers with the opportunity to benefit from a positive change in behaviour, including reducing their energy costs by moving consumption to cheaper off-peak periods.

Time of use tariffs also provide flexibility to solar customers as both peak and off-peak consumption can be offset by solar generation. Currently, customers with a combination of Residential light and power - Tariff 31 and Heating and Hot Water - Tariff 41 are only able to offset one of these tariffs at a given time.

The implementation of default time of use retail tariffs for new connections also builds on the objectives of TasNetworks time of use network tariff opt out process, commencing 1 July 2020, where new connections act as a 'trigger event' for a change in a customer's underlying network tariff. However, under the proposed change to the Tariff Schedule, customers will not be required to wait an additional 12 months before realising the benefits of a time of use tariff.

It is important to note that customers retain the ability to contact Aurora Energy and request a tariff reassignment to another eligible retail tariff at any time.

### **3. Proposed Maximum Prices for Period 5**

Following the final calculation of the NMR, the final price decrease proposed by Aurora Energy is 1.38 per cent across all Standing Offer tariffs for the 2020-21 period.

The tables below show Aurora Energy's proposed maximum prices for 1 July 2020 to 30 June 2021 as well as the percentage movement in tariff components and the check that demonstrates that the calculated NMR will not be exceeded when its proposed prices are applied to forecast load.

**Proposed Maximum Prices for 2020-21 (excluding GST)**

	\$/day	\$/kWh	\$/kWh	\$/kWh	\$/kWh	\$/kWh	\$/kWh	\$/kW or kVA pa
Tariff	Daily charge	Energy Step 1	Energy Step 2	Energy Step 3	Energy Peak	Energy Shoulder	Energy OffPeak	Demand
22	\$ 0.93207	\$ 0.30966	\$ 0.22908					
31	\$ 0.86539	\$ 0.24170						
41	\$ 0.16136	\$ 0.15695						
43	\$ 0.16710	\$ 0.14669						
61	\$ 0.19943	\$ 0.12637						
62	\$ 0.19063	\$ 0.11902						
75	\$ 2.61112				\$ 0.28377	\$ 0.20664	\$ 0.12912	
82	\$ 2.92224	\$ 0.15013						\$ 139.07255
93	\$ 0.96137				\$ 0.29215		\$ 0.13603	
94	\$ 1.00961				\$ 0.25482	\$ 0.18418	\$ 0.10773	

**Proposed Maximum Prices for 2020-21 (including GST)**

	\$/day	\$/kWh	\$/kWh	\$/kWh	\$/kWh	\$/kWh	\$/kWh	\$/kW or kVA pa
Tariff	Daily charge	Energy Step 1	Energy Step 2	Energy Step 3	Energy Peak	Energy Shoulder	Energy OffPeak	Demand
22	\$ 1.02527	\$ 0.34063	\$ 0.25199					
31	\$ 0.95193	\$ 0.26587						
41	\$ 0.17750	\$ 0.17265						
43	\$ 0.18381	\$ 0.16135						
61	\$ 0.21937	\$ 0.13900						
62	\$ 0.20969	\$ 0.13092						
75	\$ 2.87223				\$ 0.31215	\$ 0.22731	\$ 0.14204	
82	\$ 3.21446	\$ 0.16514						\$ 152.97980
93	\$ 1.05750				\$ 0.32137		\$ 0.14963	
94	\$ 1.11057				\$ 0.28031	\$ 0.20260	\$ 0.11851	

**Percentage Movement in Tariff Components for 2020-21**

Tariff	\$/day Daily charge	\$/kWh Energy Step 1	\$/kWh Energy Step 2	\$/kWh Energy Step 3	\$/kWh Energy Peak	\$/kWh Energy Shoulder	\$/kWh Energy OffPeak	\$/kW or kVA pa Demand
22	-1.38%	-1.38%	-1.38%					
31	-1.38%	-1.38%						
41	-1.38%	-1.38%						
43	-1.38%	-1.38%						
61	-1.38%	-1.38%						
62	-1.38%	-1.38%						
75	-1.38%				-1.38%	-1.38%	-1.38%	
82	-1.38%	-1.38%						-1.38%
93	-1.38%				-1.38%		-1.38%	
94	-1.38%				-1.38%	-1.38%	-1.38%	

**2020-21 NMR Check**

Tariff	\$/day* Daily charge	\$/kWh Energy Step 1	\$/kWh Energy Step 2	\$/kWh Energy Step 3	\$/kWh Energy Peak	\$/kWh Energy Shoulder	\$/kWh Energy OffPeak	\$/kW or kVA pa Demand
22	\$ 8,092,767	\$ 10,796,307	\$ 46,244,172					
31	\$ 61,937,251	\$ 172,908,365						
41	\$ 10,702,728	\$ 130,379,748						
43	\$ 57,576	\$ 970,572						
61	\$ 1,311,980	\$ 4,361,985						
62	\$ 131,435	\$ 696,364						
75	\$ 2,098,633				\$ 650,271	\$ 3,601,768	\$ 3,629,022	
82	\$ 122,661	\$ 1,003,441						\$ 265,072
93	\$ 15,706,767				\$ 27,401,138		\$ 29,609,868	
94	\$ 875,576				\$ 10,373,854	\$ 2,541,246	\$ 2,214,064	
<b>Total</b>	<b>\$ 548,684,631</b>							
<b>Allowed NMR</b>	<b>\$ 548,684,631</b>							

## 1. Customer Impacts

As a result of the uniform price decrease, regulated Standing Offer customers will see consistent percentage movements in their retail tariff prices and annual electricity bills. However, the average annual electricity bill movement in dollar terms will vary depending on the tariff and consumption level. The bill movements (including GST) for the different tariffs and combinations in the Regulator's *Typical Electricity Customers in Tasmania – 2020* report are shown below.

Tariff	Number of Customers	\$ Price Movement			% Price Movement			
		Low	Medium	High	Low	Medium	High	
Small Business	22	21,004	\$ (12)	\$ (23)	\$ (46)	(1.38%)	(1.38%)	(1.38%)
	75	2,194		\$ (59)			(1.38%)	
	94	2,485		\$ (125)			(1.38%)	
Residential	31	10,014		\$ (17)			(1.38%)	
	31/41	188,980	\$ (23)	\$ (29)	\$ (36)	(1.38%)	(1.38%)	(1.38%)
	31/41/61	14,484		\$ (37)			(1.38%)	
	93	23,967		\$ (25)			(1.38%)	

## 2. Additional Charges

The Additional Charges applying from 1 July 2020 are shown in the table below.

Additional Charges	2020-21 Price
<b>Late payment fee</b>	A late payment fee of \$5.00 applies for accounts not paid in full by the fifth day past the due date (Pensioner, Health Care Card and other exemptions apply).
<b>Overdue accounts</b>	Overdue accounts for Standing Offer customers may be charged interest in accordance with the 2016 Standing Offer Price Determination.

### 3. Supporting Documents Provided to the Regulator

Document	NMR / Input Reference
31 March 2020 Customer Numbers submitted to AER	<b>Cost-to-Serve (<math>R_y</math>)</b>
STOF Load Forecast 2020-21 STOF Pricing.XLS STOF Load Forecast 2020-21 STOF Pricing – 15-06-20 updates	<b>Load Forecast</b>
TER's letter advising the Wholesale Energy Price as calculated under the Wholesale Contract Regulatory Instrument	<b>Wholesale Electricity Costs (<math>WEC_y</math>)</b>
Loss Factors 2020-21.xlsx	<b>Distribution and Marginal Loss Factors</b>
2020-21-Network-Tariff-Application-and-Price-Guide.pdf	<b>Network Costs (<math>NC_y</math>)</b>
AR-#20667442-v81-Green_Renewable_-_Master.XLS	<b>Renewable Costs (<math>RET_y</math>)</b>
2020-21-Metering-Services-Application-and-Price-Guide.pdf	<b>Metering Costs (<math>M_y</math>)</b>
TasNetworks' Meter Register Numbers by type and tariff as at 31 April 2020	<b>Metering Costs (<math>M_y</math>)</b>
AR-#21347920-v5-2020-21_Metering_Modelling.XLSX 2020-21 Metering Model – 15-06-20 updates	<b>Metering Costs (<math>M_y</math>)</b>
PPF130a Summary of Load by Tariff – May-19 to Apr-20.xlsx	<b>2016 Determination Recoveries (<math>K_y</math>)</b>
Metering NBV Charges - Extract.xlsx	<b>2016 Determination Recoveries (<math>K_y</math>)</b>
EP Master Sheet at 5 May 2020.xlsx	<b>AEMO Costs (<math>AEMO_y</math>)</b>
EP Master Sheet - 2018-19 Extract.xlsx	<b>2016 Determination Recoveries (<math>K_y</math>)</b>