



# RETAIL ELECTRICITY PRICES

## STANDING OFFER PRICE METHODOLOGY REVIEW

### APPROACH PAPER

SEPTEMBER 2021

# CONTACT DETAILS

## Office of the Tasmanian Economic Regulator

Office hours: 8.45 am to 5.00 pm, Monday to Friday (except public holidays)

Street address: Level 3, 21 Murray Street, Hobart, Tasmania 7000

Postal address: GPO Box 770, Hobart, Tasmania 7001

Telephone: (03) 6166 4422 or international +61 3 6166 4422

Email: [office@economicregulator.tas.gov.au](mailto:office@economicregulator.tas.gov.au)

Website: [www.economicregulator.tas.gov.au](http://www.economicregulator.tas.gov.au)

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# EXECUTIVE SUMMARY

The Regulator decided in August 2020 to review the methodology it uses in determining Aurora Energy's retail electricity (standing offer) prices during its next price investigation and in its next price determination.

On 1 April 2021, the Regulator released a draft Approach Paper for public consultation. The draft Paper reviewed the methodologies of previous determinations, the arrangements in other jurisdictions and set out the Regulator's proposed approach for the next investigation and determination. The Regulator received eight submissions on the draft Paper which are listed in Appendix B and can be found on the Regulator's website at [www.economicregulator.tas.gov.au](http://www.economicregulator.tas.gov.au).

After considering the issues raised in the submissions, the Regulator's approach to determining standing offer prices in its 2022 Standing Offer Price Determination (2022 Determination) is set out in this Paper.

This Paper summarises the Regulator's approach to determining the maximum standing offer prices Aurora Energy, as the regulated offer retailer, can charge small customers in Tasmania (including Bruny Island) on standard retail contracts (regulated tariffs) for the supply of electricity from 1 July 2022 to 30 June 2025. This Paper does not apply to the prices Aurora Energy charges customers on market retail contracts.

The Regulator has decided to retain the cost build-up approach applied during the 2015-16 investigation and as set out in the 2016 Determination.

The applicable costs to provide retail services are:

- wholesale electricity costs (WEC);
- network costs;
- renewable energy target (RET) costs;
- metering costs;
- Australian Energy Market Operator (AEMO) costs;
- Aurora Energy's retail costs (cost to serve)<sup>1</sup>; and
- a retail margin.

Other inputs used in the calculation of these components are electricity loss factors, and forecast customer numbers and total load (together the latter two inputs are referred to as the Notional Tariff Base (NTB)).

Under this approach, the costs listed above are summed to arrive at a notional revenue (the Notional Maximum Revenue or NMR) for each year. The maximum retail prices that Aurora Energy may then charge under the different tariffs during that year is required to result in a total revenue

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<sup>1</sup> Under section 40AB(5) of the ESI Act, these costs are included to the extent that the Regulator considers they are reasonably incurred in the efficient provision of standard retail services.

that does not exceed the NMR. That is, if the prices under each tariff are applied to the billing days and load relating to the forecast number of customers under that tariff, the aggregate so obtained must not exceed the NMR.

By examining all of Aurora Energy's costs, the Regulator seeks to ensure that customers on regulated tariffs pay no more than necessary for these services.

The approach that the Regulator will apply for its 2021-22 pricing investigation and in its 2022 Determination is summarised in Chapter 1.

# 1 SUMMARY OF THE REGULATOR'S APPROACH

Description	Changes in approach relative to current approach	Page reference/s in this Paper
Customer numbers	<p>Use a forecast of customer numbers based on the mid-point of the actual customer numbers as at 31 March of the year prior to the commencement of each price period and a forecast as at 31 March during each price period. For example, for the 2022-23 price period, use the mid-point of actual customer numbers as at 31 March 2022 and forecast customer numbers as at 31 March 2023.</p> <p>Forecast billing days must reconcile with forecast customer numbers for each price period when estimating network costs and metering costs.</p>	3.4 (page 8)
Load	The forecast load for the period must relate to the customer numbers forecast for that period.	3.4 (page 8)
Network	Billing days used in deriving network costs must be reconciled with the forecast customer numbers in the NTB.	5.4 (page 11)
RET	<p>The LGC price for the relevant year will be a weighted average price that includes the price in Aurora Energy's Cattle Hill Power Purchase Agreement and a forward price.</p> <p>In relation to small-scale technology certificate (STC) prices, a forward price for the relevant year will be used.</p>	6.4 (page 14)
Metering	Billing days used in deriving metering costs must reconcile with the forecast of the customer numbers used in the NTB.	7.4 (page 17)
Cost to Serve	The cost to serve allowance includes an adjustment mechanism which varies in accordance with customer numbers.	8.4 (page 19)
Retail Margin	The retail margin is calculated on a dollar amount per customer and the margin is included in the cost to serve.	9.4 (page 21)
AEMO	Fees and charges to be expressed on a per connection point basis or on a \$/MWh basis as relevant and in line with how AEMO expresses the various costs in its annual budget.	10.2.3 and 10.3.3 (page 23)
Over and under recoveries	<p>Under and over recoveries are to be calculated using the NTB for the relevant period, ie changes in volume due to changes in customer numbers and/or load will not be taken into account when calculating these adjustments.</p> <p>For over and under recoveries as they apply to RET costs, allowance will be made for changes in Aurora Energy's liabilities due to changes in the Renewable Power Percentage and the Small-scale Technology Percentage (STP) for the LRET and SRET schemes respectively.</p>	11.4 (page 25)

## 2 INTRODUCTION

Section 40AA of the *Electricity Supply Industry Act 1995* (the ESI Act) requires the Regulator to determine the maximum prices (or a method of determining the maximum prices) that Aurora Energy may charge small customers under standard retail contracts.

The current price determination, the *Aurora Energy Pty Ltd 2016 Standing Offer Price Determination* (2016 Determination), expires on 30 June 2022 and the Regulator is required to make a new price determination which will cover the regulatory period from 1 July 2022. Before making the new price determination, the Regulator is required to conduct a pricing investigation.

This Approach Paper is part of the investigation process. It sets out the Regulator's methodology for the next investigation and determination.

### 2.1 Legislative requirements

The Regulator regulates electricity prices that Aurora Energy may charge small customers<sup>2</sup> under standard retail contracts in accordance with the requirements set out in the ESI Act. Under this Act, Aurora Energy proposes, and the Regulator considers for approval, standing offer electricity prices.

Periodic pricing investigations are conducted by the Regulator in accordance with the process set out in the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013* (Pricing Regulations).

Under Section 40AA of the ESI Act, the Regulator must determine the maximum prices that Aurora Energy may charge, or a method for determining those maximum prices.

Section 40AB of the ESI Act requires the Regulator to estimate Aurora Energy's operational costs in providing standard retail services.<sup>3</sup> Section 40AB(2) specifies the components of Aurora Energy's operational costs that the Regulator must consider, including wholesale electricity costs, transmission and distribution costs, cost to serve and any other costs Aurora Energy incurs providing those services.

### 2.2 Tasmanian context

The structure of the Tasmanian electricity market is significantly different from the market in other jurisdictions on mainland Australia. Compared to mainland Australia, Tasmania has a small number of major industrial customers that account for a relatively large share of electricity consumption.

State Government businesses own and operate the majority of electricity generation plants, all of the transmission network (excluding Basslink), and the distribution network. The State-owned company Aurora Energy is also the dominant retailer with currently around 97 per cent of residential customers and 97 per cent of small business customers.<sup>4</sup>

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<sup>2</sup> Small customers are all residential customers and small business customers using less than 150MWh of electricity per annum.

<sup>3</sup> These are the services provided by a regulated offer retailer under standard retail contracts in respect to small customers.

<sup>4</sup> Based on data reported by retailers operating in Tasmania to the Australian Energy Regulator for quarter 4, 2020-21 (combined customer numbers for customers on standard retail contracts and customers on market offer contracts).

Since full retail competition was introduced into mainland Tasmania on 1 July 2014, retailers other than Aurora Energy have been able to offer products to residential customers and small business customers. The entry of new retailers into the Tasmanian market (particularly the residential sector) has been relatively recent with 1st Energy entering the residential customer market in early 2019. During 2020, SocialEnergy and Energy Locals entered the residential, and residential and small business markets respectively.

Regulated prices provide a safety net price for small customers, and are the maximum prices that Aurora Energy can charge small customers under a standard retail contract. Tasmanian customers may receive their electricity supply under either a standard retail contract or a market retail contract. Aurora Energy is the only retailer required to offer regulated standing offer contracts.

The Regulator continues to be responsible for regulating Aurora Energy’s standing offer prices.

### 2.3 Next steps and timeline

This Paper sets out the approach the Regulator will apply in its 2021-22 pricing investigation and, consequentially, its 2022 Determination.

During the investigation, the Regulator will issue and consult on a draft investigation report, a draft determination and a draft standing offer price approval guideline. The Regulator will also consult on Aurora Energy’s draft Standing Offer Price Strategy.

The following table sets out the timeline for the upcoming investigation.

Table 2.1 Investigation timeline

Task Description	Date
Regulator releases regulatory notifications in relation to the investigation and determination	September 2021
Aurora Energy provides its submission	Mid-October 2021
Aurora Energy submits its Draft Standing Offer Tariff Strategy	17 November 2021
Regulator releases its draft report, draft price determination, draft standing offer price approval guideline and Aurora Energy’s draft Standing Offer Tariff Strategy for public consultation	31 January 2022
Consultation on the Regulator’s draft report, draft price determination, draft standing offer price approval guideline and Aurora Energy’s draft Standing Offer Tariff Strategy	1 February 2022 - 15 March 2022
Regulator releases its final report, final price determination and final standing offer price approval guideline and approves Aurora Energy’s Standing Offer Tariff Strategy	29 April 2022
Aurora Energy submits its pricing proposal for 2022-23 to the Regulator for approval	31 May 2022
Regulator approves 2022-23 standing offer prices (consistent with the final price determination)	Mid-June 2022



## 3 DETERMINING MAXIMUM PRICES

### 3.1 Background

Under its current approach, the Regulator sets maximum prices using a cost build-up methodology. Maximum standing offer prices are currently determined by reference to a notional maximum revenue (NMR) applied to a Notional Tariff Base (NTB). The NTB refers to customer numbers and load.

### 3.2 Draft Approach Paper

In the Draft Paper, the Regulator proposed to continue with the current cost build-up method of determining maximum standing offer prices using the following formula:

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

where:

$y$	=	the relevant financial year, eg Period 1, Period 2 and Period 3.
$\text{NMR}_y$	=	the notional maximum revenue that Aurora Energy can receive and is calculated for each of periods 1, 2 and 3 during the annual standing offer price approval process.
$\text{WEC}_y$	=	the forecast of wholesale electricity costs and is based on the wholesale energy price (WEP), forecast load and distribution and marginal loss factors.
$\text{NC}_y$	=	forecast network costs. Network costs comprise two components: transmission and distribution charges, both of which are regulated by the AER. TasNetworks' relevant regulated network tariffs are multiplied by the applicable forecast billing days and customer load to determine the total network cost component of the NMR.
$\text{RET}_y$	=	the forecast cost of Aurora Energy complying with the Australian Government's mandatory renewable energy schemes.
$\text{M}_y$	=	the forecast of allowed metering costs.
$\text{R}_y$	=	Aurora Energy's cost to serve.
$\text{AEMO}_y$	=	the total of Aurora Energy's forecast market participant fees and ancillary service charges, as set by AEMO.

$K_y$	=	an aggregate of approved under and/or over recoveries for network costs, metering costs, RET and AEMO under the current determination.
MARGIN <sub>y</sub>	=	the retail margin which is intended to reflect the risks Aurora Energy incurs in providing retail services to small customers under standard retail contracts.
$A_y$	=	an adjustment made as a result of a tax event, a material change in circumstances or a material change in Aurora Energy's costs in relation to the provision to small customers under standard retail contracts.
CF <sub>y</sub>	=	an aggregate of under and/or over recoveries from the previous period covered by the previous determination and includes the margin applicable under the previous determination.

The Regulator proposed that all cost components that relate to customer numbers, which includes load and billing days, should be calculated on a consistent basis.

The Regulator also proposed that, rather than fixing customer numbers for the following year as at March of the current year, a forecast of customer numbers will be used. The Regulator proposed using the mid-point of actual customer numbers as at 31 March prior to the start of each year and a forecast of customer numbers as at 31 March during the year.

The Regulator also proposed that billing days for network costs and metering costs are reconciled to this forecast of customer numbers.

The Regulator further proposed that the load in the NTB is a forecast of the total amount of electricity consumed by the forecast number of customers over the 12 month period from 1 April to the following 31 March. It is necessary for the forecast total load to be the sum of the forecast load forecast for each tariff.

### 3.3 Submissions

Aurora Energy supported the retention of the cost build-up approach. TasCOSS and the Tasmanian Small Business Council also accepted the Regulator's proposal to continue with the cost build-up approach but not without qualification. In particular, they considered that alternative approaches should have been discussed in the draft Paper.

While Aurora Energy was supportive of the approach to determine customer numbers, it proposed a different mid-point to calculate customer numbers. Aurora Energy suggested using the mid-point of actual customer numbers as at 31 March prior to the start of each year and a forecast of customer numbers as at 30 June during the year (as opposed to 31 March). Aurora Energy supported the proposed approach to reconcile billing days and load to customer numbers.

TasCOSS and the Tasmanian Small Business Council were generally supportive of the proposed changes to the approaches to estimating customer numbers, billing days and load, but considered that there was little discussion about the pros and cons of each option.

### 3.4 The Regulator's approach

In considering the merits of the cost build-up approach, the Regulator examined alternative approaches that have been used in other jurisdictions. It was noted that in 2009, the Queensland Competition Authority reviewed electricity pricing and tariff structures. The Authority concluded that its index-based methodology at the time had a number of flaws, and that the existing suite of notified prices was unlikely to fully reflect the costs of supply (at least not for each individual tariff group) and did not provide good price signals to customers regarding the underlying costs of their electricity usage.

Similarly, an AEMC report in 2013 stated that an index-based method is unlikely to promote cost efficiency and reflectivity.<sup>5</sup> Further, that report stated that even if prices are cost reflective to start with, it is unlikely that this would be maintained over time. Further, the report stated that an index-based method is not as transparent or easily understood as the cost build-up method.

The cost build-up methodology, with minor differences, is used by other regulators to regulate electricity prices and is a well-established and accepted methodology. Furthermore, the individual cost components are consistent across jurisdictions. Therefore, the Regulator has decided to continue with the cost build-up approach.

The Regulator has decided to use the mid-point of actual customer numbers as at 31 March prior to the start of each year and a forecast of customer numbers as at 31 March during the year. This will ensure that all four seasons are taken into account over a 12 month period.

The Regulator has also decided that billing days for network costs and metering costs will be reconciled to this forecast of customer numbers. Further, the Regulator decided that the load in the NTB is to be a forecast of the total amount of electricity consumed by the forecast number of customers over the 12 month period from 1 April of the year before to 31 March of the relevant year.

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<sup>5</sup> Australian Energy Market Commission, *Advice on best practice retail price regulation methodology* (2013), page 95.

## 4 WHOLESALE ELECTRICITY COSTS

### 4.1 Background

Currently, the estimate of the wholesale energy costs (WEC) component of the NMR is based on the wholesale electricity price (WEP), forecast customer load, distribution and marginal loss factors.

Hydro Tasmania is the dominant generator in Tasmania and controls the majority of the generation capacity in the state. Hydro Tasmania is also the principal provider of financial hedge contracts for the Tasmanian region of the NEM. In response to perceptions about Hydro Tasmania's market power, the Tasmanian Government has, since 2014, required Hydro Tasmania to offer regulated wholesale financial contracts at regulated prices to authorised retailers operating in Tasmania.

The ESI Act requires Hydro Tasmania to offer four financial risk contract types, approved by the Regulator, with the objective of providing retailers in Tasmania with similar conditions and levels of risk as faced by retailers operating in other regions of the NEM. The details of each approved financial contract type, including how prices as calculated are specified in the Wholesale Contract Regulatory Instrument (Instrument). The Instrument documents a rules-based methodology for calculating the prices for each contract type in the wholesale pricing model which is a Microsoft Excel model.

The approved contract types include a load following swap. The effect of section 40AB(3) of the ESI Act, as it applies over the next regulatory period, is that Aurora Energy's WEC for the purpose of determining standing offer prices are based on load following swap prices.

### 4.2 Draft Approach Paper

The Regulator proposed continuing with the current method to calculate the WEC for the regulatory period to be covered by the 2022 Determination. That is:

$$WEC_y = (\text{forecast load}_y \times WEP_y \times DLF_y \times MLF_y)$$

Where:

forecast load<sub>y</sub> = an estimate of the volume of electricity a retailer must purchase in the spot market to supply small customers for period<sub>y</sub>

WEP<sub>y</sub> = wholesale electricity price for period<sub>y</sub>, as calculated by the Regulator using the method set out in the Standing Offer Price Approval Guideline

DLF<sub>y</sub> = load weighted average distribution loss factor for period<sub>y</sub>

MLF<sub>y</sub> = load weighted average marginal loss factor at the regional reference node for Tasmania for period<sub>y</sub>

### 4.3 Submissions received

Aurora Energy supported the proposed approach.

TasCOSS and the Tasmanian Small Business Council raised a concern regarding the impact of the current method in a market with low and falling wholesale prices. Specifically, they claimed that small electricity consumers in Tasmania have been paying too much for their electricity in 2020-21 because the wholesale price in Victoria has been falling. They also stated that the approach taken to calculate the WEP is difficult for consumers to understand.

### 4.4 The Regulator's approach

The Regulator acknowledges that the method to calculate the WEP may be difficult for customers to understand and that the WEP may not align with the prevailing or recent spot and/or wholesale electricity prices. The WEP is based on the premise that prudent retailers use forward contracts to reduce their exposure to volatile spot prices. The weighted moving average method used to calculate the WEP each year under the 2016 Determination is specified in the *Standing Offer Price Approval Guideline* and uses eight quarters of weekly regulated load following swap prices that have been calculated in accordance with the requirements set out in legislation and in the Instrument. The resulting WEP has reduced customers' exposure to the volatility in wholesale prices but has resulted in a lag between the applicable WEP and recent wholesale electricity prices.

The Regulator will consult on the method to calculate the WEP as part of the consultation on the new *Standing Offer Price Approval Guideline* during the investigation. This is predicated, however, on any future legislative changes not requiring the Regulator to adopt a different approach to setting the WEP. This occurred during some years covered by the 2016 Price Determination when a WEP Order was in place specifying the WEP the Regulator was to use.

As under the 2016 Determination and current legislative requirements, the WEP will be determined as part of the annual standing offer price approval process in June each year prior to the start of each period. That is, in each period of the 2022 Determination, the WEP will be recalculated as per the method set out in the new *Standing Offer Price Approval Guideline*.

## 5 NETWORK COSTS

### 5.1 Background

Network costs comprise transmission use of system (TUoS) and distribution use of system (DUoS) charges.

Network costs are regulated by the AER with the AER reviewing TasNetworks' schedule of tariffs in June each year. The approved tariffs apply for 12 months from 1 July of each year and are usually set in April or May of the previous year.

Network tariffs comprise a fixed daily charge, consumption charges and for some tariffs a charge based on demand. Network tariffs are grouped by network tariff classes. Network tariff classes are based on the physical characteristic of the electricity connection (eg high voltage) or customer type (eg residential or business).

### 5.2 Draft Approach Paper

The Regulator proposed continuing with the current approach to forecast network costs. That is, the network cost component of Aurora Energy's NMR is determined by multiplying the applicable TasNetworks' network tariff by forecast billing days and customer load for each retail tariff and then summing the resultant values.

However, the Regulator proposed reconciling the billing days used in deriving network costs with the forecast of the customer numbers used in the NTB ie the billing days used when forecasting network costs are to relate directly to the number of customers forecast in the NTB.

### 5.3 Submissions

Aurora Energy supported the proposed approach.

TasCOSS and the Tasmanian Small Business Council also supported the proposed approach. In particular, they supported the proposal to reconcile billing days with customer numbers.

### 5.4 The Regulator's approach

The Regulator has decided to continue with the current approach to forecast network costs with the exception that billing days used in deriving network costs will be reconciled with the forecast of the customer numbers used in the NTB.

## 6 RENEWABLE ENERGY TARGET COSTS

### 6.1 Background

The NMR includes an estimate of the annual costs of Aurora Energy complying with the Australian Government's Renewable Energy Target (RET) Scheme.

The Scheme creates a guaranteed market for renewable energy, using a mechanism of tradable certificates with each certificate representing one-megawatt hour of renewable electricity generated.

Electricity consumers pay for this government requirement through obligations imposed on purchasers of wholesale electricity (including retailers) who then pass through the cost of complying with the obligations to customers.

The RET is achieved under two schemes:

- the Large-scale Renewable Energy Target (LRET); and
- the Small-scale Renewable Energy Scheme (SRES).

The LRET supports the development of large projects such as hydro generation schemes and wind farms. Electricity retailers must purchase and surrender a specific number of Large-scale Generation Certificates (LGCs) each year. The number of LGCs to be surrendered each calendar year is calculated using the Renewable Power Percentage (RPP) which is determined by the Clean Energy Regulator (CER).

The SRES supports investment in smaller technologies such as rooftop solar panels and solar hot water heaters through the generation of Small-scale Technology Certificates (STCs). STCs created must be purchased by electricity retailers. The number of STCs electricity that retailers must purchase and surrender over the course of each calendar year is calculated using the Small-scale Technology Percentage (STP) which is also determined by the CER.

The RPP and STP are applied to the amount of wholesale electricity purchased by the retailer in a calendar year adjusted for the applicable Distribution Loss Factor (DLF). In March of each year, the CER publishes the final binding percentages for that calendar year for the RPP and the STP and provides non-binding STPs for the following two calendar years.

In summary, an electricity retailer's annual costs of complying with the RET are determined by the RPP, the STP, the price of LGCs and STCs and the amount of electricity purchased (or liable MWh).

The formula for estimating the LRET costs will be as follows:

$$\text{LRET cost} = (\text{RPP} \times \$/\text{LGC} \times \text{liable MWh})$$

The CER publishes its RPP by 31 March on a calendar year basis. However, the allowance for RET costs is calculated on a financial year basis. Under the current approach, the Regulator will use the CER's RPP for the first half of each financial year of the regulatory period. For the second half of each financial year of the regulatory period, the Regulator will apply the formula in section 39(2)(b) of the *Renewable Energy (Electricity) Act 2000 (Cwlth)* to forecast the RPP.

The formula for estimating the SRES costs is as follows:

$$\text{Total SRES cost} = (\text{STP} \times \$/\text{STC} \times \text{liable MWh})$$

As with the RPP, the CER publishes its binding STP by 31 March on a calendar year basis. Under the current approach, the Regulator will use the CER's binding STP for the first half of each financial year of the regulatory period. For the second half of each financial year of the regulatory period, the Regulator uses the CER's non-binding STP.

As the LRET and SRET schemes operate on a calendar year basis, it is necessary to allocate the estimated annual liable MWh between the first half of the financial year (ie 1 July to 31 December) and the second half of the financial year (ie 1 January to 30 June).

## 6.2 Draft Approach Paper

In determining the price of LGCs and STCs, the Regulator proposed using forward prices for each relevant year as estimated soon before the date when Aurora Energy's standing offer prices are approved for that year. The Regulator would likely engage a consultant or purchasing data to estimate these forward prices.

The Regulator also proposed that if Aurora Energy's actual RET prices over the year are different from the forward prices, this would not be included in any adjustments for over or under recoveries.

## 6.3 Submissions

Aurora Energy did not support the Regulator's proposed approach to calculate large-scale generation certificate (LGC) prices. It stated that the proposed approach does not recognise that electricity retailers enter into long term Power Purchase Agreements (PPAs). Aurora Energy stated that this would have an adverse financial impact because it would not be able to pass through the costs relating to the Cattle Hill PPA in standing offer prices. Aurora Energy stated that PPAs have reduced customers' exposure to volatility in the short-term forward and spot markets. Therefore, Aurora Energy considered that the LGC RET price should have regard to PPAs.

Nekon Pty Ltd and the Property Council of Australia stated that Aurora Energy should not be able to profit from RET certificates apportioned to standing offer customers and that an audit should be undertaken to ensure standing offer customers are paying the actual price of the certificates. That is, Aurora Energy should not be able to profit from RET certificates relating to standing offer customers by recovering more than the cost of these certificates.

Energy ROI stated that LGC prices should be determined in the open market. It considers that if a retailer chooses to 'play the market' and buy at higher/lower prices later in the year, the retailer should wear any losses and these should not be recovered from standing offer customers.

TasCOSS and the Tasmanian Small Business Council considered that an approach that is based on forward prices using the latest available LGC and STC data should be a preferable one and should be seriously considered. They considered that the objective should be to use the most robust and accurate estimate of LGC and STC prices possible and one that minimises the cost of the RET. They commented, however, that they can see little in the Regulator's proposed approach that would encourage Aurora to minimise its RET costs over time whilst sharing these benefits with its small customer load.

TasCOSS and the Tasmanian Small Business Council also stated that if Aurora Energy's actual RET prices over the year are different from the forward prices, then this should not be included in any adjustments for over or under recoveries.



## 6.4 The Regulator's approach

The Regulator has reviewed its proposed draft approach in light of the submissions received and recognises that retailers that are wholly exposed to RET prices under spot prices or short term contracts may face unacceptable financial risks and pay more for LGCs than under a longer term contract. The Regulator also notes that PPAs enable retailers to manage these risks and the Regulator understands that many retailers enter into PPAs for this reason.

The Regulator has therefore decided on an approach that allows Aurora Energy's long term contractual commitments under the Cattle Hill PPA to be included in the LGC RET price. For the remainder of Aurora Energy's RET liabilities, the Regulator is satisfied that the forward LGC price for the relevant year, as estimated soon before the date when Aurora Energy's standing offer prices are approved for that year, is the most appropriate price.

The Regulator has therefore decided that the LGC prices for the 2022-25 regulatory period will be a weighted price calculated using:

- the LGC price and the volume of LGCs purchased under the Cattle Hill PPA for the relevant year;<sup>6</sup> and
- the forward LGC price for the remaining volume of LGCs that Aurora Energy is required to purchase for the relevant year under the RET scheme.

In calculating the weighted LGC price for the relevant year, the proportion of LGCs purchased under the Cattle Hill PPA will be calculated as follows. Aurora Energy will forecast the share of its total LGC liability that will apply to the estimated load required to supply customers on standard retail contracts. Aurora Energy will then apply that share to the total number of LGCs purchased under the Cattle Hill PPA for that year to determine the number of LGCs to be included in the weighted LGC price. The remaining LGCs required for the estimated load required to supply customers on standard retail contracts will be priced at the forward price for that year.

The Regulator would likely engage a consultant or purchase data on forward prices and will determine how the forward prices are to be calculated as part of the upcoming price investigation.

In relation to STC prices, the Regulator has decided to use forward prices.

The Regulator's treatment of under and over recoveries in relation to RET costs is discussed in section 11.4 in Chapter 11 of this Paper.

On a related matter, in their submissions on the Regulator's Draft Approach Paper, Nekon Pty Ltd and the Property Council of Australia raised concerns about the possibility of RET costs being disproportionately recovered from customers on standard retail contracts and from market customers. The Regulator is satisfied that Aurora Energy does not currently over-recover or under-recover RET costs from customers on standard retail contracts relative to the RET costs recovered from customers on market retail contracts. Furthermore, in relation to Nekon Pty Ltd's and the Property Council of Australia's concerns about Aurora Energy potentially profiting from RET certificates, the Regulator has seen no evidence of Aurora Energy recovering more from customers than the costs it incurs purchasing RET certificates.

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<sup>6</sup> The details of the Cattle Hill PPA are commercial-in-confidence.

## 7 METERING COSTS

### 7.1 Background

Metering costs comprise the costs associated with the installation, maintenance and reading of meters, and costs associated with the introduction of metering competition and fee-based metering services.

Changes to the National Electricity Rules (NER) to provide for metering competition from 1 December 2017 included creating a new role, that of Metering Coordinator. The Metering Coordinator appoints a Metering Provider and a Metering Data Provider and is responsible for managing service levels, rule compliance and performance reporting. Metering Coordinators and the services they provide are not price regulated. Retailers are responsible for engaging a Metering Coordinator for their small customers. The changes to the NER also require that any new or replacement meter must be an advanced meter.

There are numerous meter types used which can be broadly split into two groups:

- Basic accumulation meters referred to as Type 6 meters. These are analogue meters which measure the total electricity consumed over a period and require manual reading. Each tariff requires a separate meter therefore customers on Tariffs 31 and 41 (most residential customers are on this combination) will have two type 6 meters. The Local Network Service Provider, TasNetworks continues to be responsible for reading these meters.
- Advanced meters, also referred to as interval or Type 4 meters, record usage in real time and are read in 15 or 30 minute intervals. These meters are also able to record usage against multiple tariffs and can be read remotely. Up until recently, Aurora Energy has contracted Yurika (previously Metering Dynamics) to manage the installation, maintenance and reading of Type 4 meters.

Currently, metering costs are smoothed across the standing offer customer base. In effect, this means that each customer pays the same amount for metering.

### 7.2 Draft Approach Paper

The draft Paper stated that the Regulator is considering including in its 2022 Price Approval Guideline a requirement on Aurora Energy that the prices charged to a customer reflect the metering costs Aurora Energy incurs with respect to:

- the tariff or tariffs the customer is on;
- whether that customer has an advanced (eg Type 4) meter or meters or an accumulation (Type 6) meter or meters; and
- whether the advanced meter is replacing an accumulation meter that still has a useful life.

Under this option, from 1 July 2022, customers with a Type 6 meter would face lower electricity bills than under the current approach. Customers with an advanced meter would face higher electricity

bills than under the current approach, all other factors held constant, but may be able to access tariffs and/or manage their consumption and make savings on their electricity bills.

### 7.3 Submissions

Aurora Energy, Nekon Pty Ltd, TasNetworks, the Department of State Growth (Renewables Tasmania) and Energy ROI did not support the potential introduction of a separate metering charge for Type 4 and Type 6 meters.

Aurora Energy claimed that the proposal would lead to inequalities in charges applied across standing offer customers; conflict with State and Federal Government policies that aim to drive the rollout of advanced meters<sup>7</sup>; that customer empowerment from the use of advanced meters would be inhibited; and changes to Aurora Energy's systems would impact on the cost to serve component.

Nekon Pty Ltd stated that it would be unfair to charge customers for advanced meters that were supplied on the understanding that there would be no additional cost and that customers with faulty interval meters should not be penalised by having to pay the additional cost of an advanced meter.

Nekon Pty Ltd also stated that it would be useful for the Regulator to seek information from TasNetworks on customers' consumption patterns from being able to alter their electricity usage from peak to off-peak times. TasNetworks advised that it is costly to maintain a network with high peaks and that reducing the peaks will save maintenance costs. However, Nekon Pty Ltd stated that TasNetworks has been unable to advise the estimated saving that could be achieved for a reduction in the peak demand.

The Department of State Growth considered that the proposal for a separate meter charge could act as a disincentive to roll out advanced meters. Further, it considered that the proposed change would disadvantage those customers who had their old meters replaced for reasons other than choice. In particular, the Department commented that there are a large number of former Aurora Pay As You Go (APAYG) customers whose old prepaid meters were replaced with advanced meters. At the time, the Government policy was that these customers would be transitioned from the old prepaid meters at no additional cost.

TasNetworks did not support any changes to the current metering arrangements. TasNetworks stated that, while the benefits associated with advanced meters is well understood by industry, regulators and Government, customers are still evaluating whether there are net benefits from changing to an advanced meter. TasNetworks therefore considered that any changes to the current cost recovery mechanism for advanced meters at this point in time may undermine the transition..

Energy ROI stated that metering charges should be recovered as a smoothed cost across the client base (not based on meter type) with some allowance for expected new installations and replacement of failed meters for the coming year. Energy ROI also stated that a rebate should be simultaneously introduced to protect the most vulnerable customers from the additional cost of an advanced meter.

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<sup>7</sup> The Tasmanian Liberal party made a commitment, before the May 2021 election to accelerate the rollout of advanced meters in Tasmania by 2026.

TasCOSS and the Tasmanian Small Business Council stated that, in the interests of transparency and given the recent introduction of advanced meters, it would favour the inclusion of a separate meter charge in customers' bills. However, it also stated that this proposal also needs to consider that:

- The higher cost of an advanced meter may create a disincentive for low income and vulnerable consumers to opt for such a meter and forego any pricing benefits.
- The related proposal to replace accumulation meters with advanced meters, including under conditions of mandatory replacement, would increase charges to Tasmanians who can least afford it.
- Aurora's former PAYG customers have had to have their meters replaced with an advanced meter on the understanding that this would cost no more. However, the Regulator's proposal would change this and increase their electricity bills. Some of these customers are on low incomes.
- Residential and small business consumers need to be in a position where they can make a well-informed assessment of the costs and benefits of installing an advanced meter and any tariff benefits this would bring. Low levels of education and literacy throughout Tasmania, particularly among Tasmanians on low incomes, means this may not be the case for these customers.

TasCOSS and the Tasmanian Small Business Council also stated that the Regulator should consider the pricing of meter-related services in other NEM jurisdictions, including those under market contracts where possible, in its pricing investigation and seek to benchmark these as a basis for setting Aurora's metering costs.

## 7.4 The Regulator's approach

Since the release of the draft Paper, an additional metering coordinator, TasMetering, has recently been appointed following the completion of a public tender procurement process.<sup>8</sup>

Having considered the issues raised in submissions, the Regulator has decided not to make any changes to the current way that metering costs are included in electricity prices. The Regulator has decided, as set out in the draft Paper, that the billing days used in deriving metering costs must reconcile with the forecast of the customer numbers used in the NTB.

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<sup>8</sup> Metering Dynamics will continue to be responsible for the advanced meters it has installed to date.

## 8 COST TO SERVE

### 8.1 Background

The cost to serve accounts for the operating costs of providing retail services and includes:

- billing and revenue collection;
- marketing;
- providing advice and answering customer queries via its customer call centre;
- contributing to corporate overheads; and
- regulatory compliance.

The cost to serve allowance is generally expressed as a \$ per customer basis.

### 8.2 Draft Approach Paper

The Regulator proposed continuing to use a combination of cost build-up and benchmarking approaches in determining Aurora Energy's cost to serve allowance for the next regulatory period.

Applying these approaches, the Regulator proposed to estimate Aurora Energy's cost to serve allowance via a cost build-up approach and then compare the result against the cost to serve amount used in other jurisdictions. Compared to 2016, there are now additional cost to serve figures to benchmark against such as those set out in the ACCC Inquiry into the National Electricity Market and the Frontier Economics report to the ESC on retail costs.

However, the Regulator acknowledged that if Aurora Energy's customer numbers change, Aurora Energy will have more or fewer customers from which to recover its fixed costs attributable to providing services under standard retail contracts. The Regulator therefore considered including an adjustment mechanism whereby, separate from any annual indexation arrangement, Aurora Energy's cost to serve allowance per customer would increase if customer numbers are lower in the next year, or decrease if its customer numbers are higher.

The Regulator also proposed allowing Aurora Energy to continue recovering CARC relating to defensive campaigns and advertising costs it incurs in response to new retailers operating in the Tasmanian retail electricity market. These costs will be aggregated with other retail operating costs in calculating Aurora Energy's cost to serve allowance.

In accordance with past practice, for the second and third year of the regulatory period, the Regulator proposed indexing the first years' cost to serve allowance by applying an inflation factor.

### 8.3 Submissions

Aurora Energy stated that it supports the proposed approach.

COTA Tasmania stated that when Aurora Energy closed its Aurora Online service and replaced it with the Aurora+ app, it became the only retailer in Australia that charged for its app-based service.

It also stated that, at the same time, Aurora Energy became the only retailer in Australia that moved from an on-line service offering to a forms-based service offering for its standing offer customers.

TasCOSS and the Tasmanian Council of Small Business stated that there are inherent dangers in relying on a small set of benchmarks for estimating the cost to serve and urged the Regulator to undertake a robust assessment of the benchmarking it proposes to use as part of its price investigation.

TasCOSS and the Tasmanian Council of Small Business noted that the ESC has sought to provide a CARC in its regulated VDO that is “modest”. They suggested that the Regulator needs to adopt a similar approach in relation to Aurora’s standing offer customers. They also suggested that the Regulator should also consider that switching in Tasmania remains very low (significantly less than anywhere else in the NEM), which would appear to support a low CARC allowance. They also suggested that consideration should be given to adjusting Aurora Energy’s NMR if retail competition did not exist or was insufficient to warrant CARC expenditure in the previous year.

In relation to the Aurora+ app, TasCOSS and the Tasmanian Small Business Council stated that customers must pay extra for a similar service to that previously provided at no cost and that by way of contrast, market offer retailers in the NEM, including new entrants operating in Tasmania, often include online and app access as part of their offers.

TasCOSS and the Tasmanian Council of Small Business noted that a measure of general price inflation such as changes in the CPI may not be a good measure of annual changes in the cost to serve. They consider it would be useful if the Regulator undertook an analysis of changes in the cost to serve to better inform its approach.

## 8.4 The Regulator’s approach

The Regulator has decided to continue to use a combination of cost build-up and benchmarking approaches in determining Aurora Energy’s cost to serve allowance for the next regulatory period. In addition, the Regulator has decided that the cost to serve allowance will be able to vary in accordance with customer numbers.

In determining the efficient level of Aurora Energy’s cost to serve as part of the 2022 price investigation, the Regulator will assess Aurora Energy’s proposal. This will include the services Aurora Energy proposes to offer to its customers including access to data on their consumption, billing and payment arrangements, CARC and the annual indexation method.

## 9 RETAIL MARGIN

### 9.1 Background

The retail margin is intended to compensate Aurora Energy for the risks it faces providing standard retail services to customers on standard retail contracts.

There are generally two approaches to estimating the retail margin:

- undertaking a bottom-up and/or expected returns analysis of the retailer's financial position to determine an appropriate retail margin; and/or
- determining the appropriateness of the retailer's margin by benchmarking against margins adopted in other jurisdictions.

### 9.2 Draft Approach Paper

The Regulator intends to take the same approach as in the 2016 Determination, namely adopting a benchmarking approach to setting the retail margin, taking account of the risks Aurora Energy faced in delivering retail services under standard retail contracts.

This will take into account the energy price risks that Aurora Energy may face in Tasmania compared with retailers operating in interstate markets. If the Regulator includes in the cost to serve allowance an adjustment mechanism based on changes in customer numbers, this would also be taken into account.

As the retail margin is currently applied to the sum of the cost components, an increase in costs leads to a bigger retail margin in dollar terms and vice versa. There appears to be no justifiable basis for the total retail margin varying directly with Aurora Energy overall costs. It means, for example, that if WEP or network costs rise, Aurora Energy's NMR would increase not just due to the higher WEP or network costs but also by applying the margin to the sum of the cost components which would not be related to, for example, Aurora Energy facing greater risks. To mitigate against this outcome, the Regulator is therefore considering calculating the retail margin on a dollar amount per customer basis and including this amount as part of the cost to serve.

### 9.3 Submissions

Aurora Energy, Nekon Pty Ltd, Property Council of Australia, the Department of State Growth and TasCOSS and the Tasmanian Small Business Council supported the calculation of the retail margin on a dollar amount per customer basis and including this amount as part of the cost to serve.

While supportive of the proposal, Aurora Energy commented that the retail margin will need to compensate Aurora Energy for ongoing investment and the risks it faces. Similarly, the Department of State Growth considered that the retail margin should reflect the risks that Aurora Energy faces and the impact on customers.

TasCOSS and the Tasmanian Small Business Council stated that, in relation to price risk, wholesale prices have sunk to historically low levels. They claim that this has led to a situation in recent years where the WEP has been set higher than actual wholesale prices in that year so that Aurora Energy has been in a position to benefit from such outcomes. Further, in relation to risks associated with customer switching due to more intense retail competition, TasCOSS and the Tasmanian Small

Business Council consider that Aurora Energy still faces far less risk from this than retailers in other NEM jurisdictions, as the low rates of switching to date demonstrate.

## 9.4 The Regulator's approach

The Regulator has decided to continue to adopt a benchmarking approach to setting the retail margin that takes into account the risks faced by Aurora Energy and to calculating the margin on a dollar amount per customer basis and including this amount as part of Aurora Energy's cost to serve. The Regulator notes that there is a trade-off between allowing over and under recoveries and the size of the retail margin. To the extent that Aurora Energy's risks are reduced by allowing over and under recoveries to be reflected in prices in the following years, a lower retail margin may be appropriate.

A method for calculating a retail margin on a dollar amount per customer will be set out in the Regulator's draft investigation report and/or draft determination.



# 10 AEMO COSTS

## 10.1 Background

The Australian Energy Market Operator (AEMO) operating costs are funded through annual fees levied on market participants. Retailers are liable to pay a portion of these fees. The following fees are charged by AEMO to retailers and are permitted to be recovered from their customers:

- NEM fees:
  - Allocated fees - Market Customers;
  - Unallocated fees - General fees;
- Full Retail Competition (FRC) electricity:
  - FRC operations; and
  - Energy Consumers Australia (ECA).

NEM fees are based on customer load adjusted by the DLF while FRC fees are on a per connection point per week basis.

Retailers are also permitted to recover from their customers AEMO costs relating to payments for ancillary services. These fees are based on customer load adjusted by the DLF.

AEMO's NEM and FRC fees for the following financial year are determined by AEMO annually in May, in accordance with the NER.

## 10.2 AEMO fees

### 10.2.1 Draft Approach Paper

Subject to a consideration of any changes arising from AEMO's Electricity Market Participant Fee Structure Review, and in accordance with previous determinations, the Regulator proposed to continue its current approach to estimating NEM fees and FRC electricity fees.

However, from 2020-21, national transmission planner fees are not borne by market customers; instead they are payable by transmission network service providers and reflected in network costs. These fees will, therefore, no longer be included in the AEMO component of the cost build-up (these fees were not included in the AEMO component for 2020-21 nor will they be for 2021-22 under the 2016 Determination).

### 10.2.2 Submissions

Aurora Energy and TasCOSS and the Tasmanian Small Business Council support this approach.

### 10.2.3 The Regulator's approach

The Regulator has decided to continue its current approach to estimating NEM fees and FRC electricity fees, although national transmission planner fees will no longer be included in the AEMO component of the cost build-up.

Further, the Regulator has decided that fees and charges are to be expressed on a per connection point basis or on a \$/MWh basis as relevant and in line with how AEMO expresses the various costs in its annual budget.

## 10.3 Ancillary Services

### 10.3.1 Draft Approach Paper

The Regulator proposed continuing with its current approach to estimating ancillary services fees for the next price period.

### 10.3.2 Submissions

Aurora Energy and TasCOSS and the Tasmanian Small Business Council support this approach.

### 10.3.3 The Regulator's approach

The Regulator has decided to continue with its current approach to estimating ancillary services fees.

As above, the Regulator has decided that fees and charges are to be expressed in line with how AEMO expresses the various costs in its annual budget.

# 11 UNDER AND OVER RECOVERIES AND ADJUSTMENTS

## 11.1 Background

The prices to apply to the next price period are currently calculated using an NMR in May/June of each year. Some NMR components such as the WEC are already known for the next period at the time prices are calculated.

For other components, such as RET costs, the cost per unit of electricity for the next price period must be based on an estimate. This is because the actual Renewable Power Percentage and Small-scale Technology Percentage that apply for the entire year will not be known at the time standing offer prices are approved.

For NMR components based on estimated values, Aurora Energy may either under recover or over recover its costs from the prices charged during the year as they may not reflect the actual per unit costs incurred during that period.

The Regulator seeks to keep under and over recoveries to a minimum. Partly this is because a slightly different set of customers benefit through prices being lower than otherwise in the next period, or are penalised through prices being higher than otherwise. Also these adjustments can lead to greater price volatility from year to year.

## 11.2 Draft Approach Paper

The Regulator proposed continuing to allow the difference between certain forecast per unit costs and actual per unit costs for each price period to be passed through to small customers in the next period through the inclusion of  $K_y$  and  $CF_y$  components in the NMR formulae.

The Regulator also proposed that under and/or over recoveries included in the  $K_y$  or  $CF_y$  costs:

- continue to be limited to network costs, metering costs, some RET costs and AEMO charges; and
- apply only to the extent that the relevant cost component per unit price is not known at the time prices are set for the next price period.

To calculate the applicable  $K_y$  and  $CF_y$  the Regulator proposed requiring the relevant cost component to be recalculated using the NTB for that year but with the updated values for that year, ie reflecting what the NMR component value would have been if the actual cost had been known at the time the prices were approved. With regard to RET costs, the Regulator proposed only updating the RPP and STP but not changing LGC and STC prices. With regard to ancillary charges the Regulator proposed to apply a rate, calculated using the actual ancillary fees for the price period, to the load in the NTB for that period.

At the time prices are calculated for the next year, the actual values are not known for the last quarter of the then current price period. To account for this timing difference, the adjustments to a NMR component for a price period will need to be recovered over the next two price periods. Firstly, a preliminary adjustment in which the difference between the initial value and the updated component value is included in the NMR for the next price period in  $K_y$  and  $CF_y$  (if applicable). Secondly, a final adjustment in which the difference between the previous years recalculated

component and the final actual value for the cost component. As such  $K_y$  and  $CF_y$  (if applicable) will include adjustments for two previous price periods.

The Regulator proposed no changes to the current approach to calculating  $A_y$  and that the Price Approval Guideline will set out how the Regulator intends calculating these adjustments.

### 11.3 Submissions

While largely supportive of the proposed approach, Aurora Energy stated that adjustments for under and over recoveries should allow for changes in customer numbers and load.

TasCOSS and the Tasmanian Small Business Council support constraining adjustments to network costs, metering costs, RET costs and AEMO charges to the extent that the relevant cost component per unit price is not known at the time prices are set. They also support only updating costs to account for changes in the RPP and STP and not for changes in LGC and STC prices.

### 11.4 The Regulator's approach

Having considered the submissions, the Regulator has decided that under and over recoveries are to be calculated using the NTB in the relevant period. Therefore, customer numbers and load will not be taken into account when calculating under and over recoveries.

In calculating the over and under recovery of RET costs, the Regulator will allow for changes in the RPP and/or STP during the relevant period.

The prices used to calculate RET costs in each year will also be used when calculating any preliminary and final adjustments in relation to RET costs with respect to each year ie the LGC and STC prices used when calculating prices in 2022-23 must be used when calculating preliminary and final adjustments in 2023-24 and 2024-25 respectively.

In the case of over and under recovery of RET costs relating to years under the 2016 Determination ( $CF_y$ ), the LGC and STC prices used in calculating the approved prices in the relevant year will be used.

No changes will be made to the current approach to calculating adjustments ( $A_y$ ). The Price Approval Guideline will set out how the Regulator intends calculating these adjustments.

## 12 STANDING OFFER PRICE STRATEGY

### 12.1 Background

The Regulator required Aurora Energy to submit a draft Standing Offer Price Strategy for the regulatory period covered by the 2016 Determination. Aurora Energy was required to set out its intended changes to its existing tariff structure, standing offer prices and details of any price transition mechanisms it intended applying during the current regulatory period.

Before submitting its draft Strategy, Aurora Energy was also required to provide high level principles that would underpin the Strategy. These principles set out Aurora Energy's desire to have flexibility in its standing offer prices in order to be able to compete with other retailers.

Among other things, Aurora Energy's draft Strategy proposed its approach to price changes, which involved passing through price changes based on changes in specific underlying NMR cost components and incremental rebalancing for each component of each tariff to address disparities in tariffs created during previous regulatory periods. The Regulator approved the Strategy on 5 May 2016.

### 12.2 Draft Approach Paper

For the 2021-22 price investigation, the Regulator proposed requiring Aurora Energy to submit for approval a draft Standing Offer Price Strategy that will apply for the regulatory period to be covered by the 2022 Determination. The Regulator did not propose requiring Aurora Energy to submit, separately, the high level principles that would underpin its Strategy as the Regulator will require the Strategy itself to set out those principles.

Among other things, the Regulator expected that the Strategy will set out Aurora Energy's plans on a range of issues including but not limited to meeting shareholder directives and expectations, the structure of its tariffs (including the extent to which its non-electricity related costs may be recovered from fixed daily charges) and any rebalancing of standing offer prices.

### 12.3 Submissions

Aurora Energy stated that it will submit a draft Standing Offer Tariff Strategy in line with the Regulator's request.

TasNetworks claimed that research and case studies undertaken on behalf of the Australian Energy Market Commission demonstrated that there are customer benefits arising from a transition to cost reflective pricing. TasNetworks considered that the delivery of long-term benefits to customers through the implementation of cost reflective network tariffs relies on network pricing signals being reflected in retail pricing. To be effective, it considered that the rebalancing of network prices requires the flexibility of non-uniform changes in standing offer tariffs.

TasCOSS and the Tasmanian Small Business Council support the submission of a Strategy.

## 12.4 The Regulator's approach

The Regulator has decided that Aurora Energy is to submit for approval a draft Standing Offer Price Strategy by 17 November 2021 that will apply for the regulatory period to be covered by the 2022 Determination. The Regulator intends publishing the draft Strategy as soon as practicable after its receipt with consultation on the draft Strategy to take place at the same time as consultation on the Regulator's Draft Report during February and March 2022.

# 13 ANNUAL PRICE APPROVALS

## 13.1 Background

Standing offer electricity prices are commonly set on an annual basis to allow for changes in both costs and the NTB as well as variations between forecasts and actual cost inputs.

In the Tasmanian context, sections 40(1) and 40(4) respectively of the ESI Act allow Aurora Energy, as a regulated offer retailer, to fix or amend its standing offer prices provided the prices fixed or amended are approved as per section 41.

Section 41 of the ESI Act states:

### **Approval of standing offer prices**

- (1) A standing offer price may not be fixed under section 40(1), and an amendment of a standing offer price may not be made under section 40(4), unless-
  - (a) a draft of the standing offer price, or a draft amendment of the standing offer price, has been approved by the Regulator under subsection (3); and
  - (b) the standing offer price fixed, or the draft amendment made, is in the same terms as the draft of the standing offer price, or the draft amendment of the standing offer price, approved by the Regulator under subsection (3).

## 13.2 Draft Approach Paper

Given the specific legislative requirements in Tasmania and having considered the arrangements in place in other jurisdictions, the Regulator proposed continuing with an annual approval process supported by a standing offer price approval guideline.

In accordance with past practice, the Regulator intended releasing a draft of the guideline for public consultation during the 2021-22 price investigation. The guideline will set out Aurora Energy's obligations and, if required, provide more detail on the Regulator's proposed approach to estimating Aurora Energy's cost components and inputs.

## 13.3 Submissions

TasCOSS and the Tasmanian Small Business Council supported the continuation of the annual approval process and for the process to be set out in a standing offer price approval guideline issued by the Regulator.

## 13.4 The Regulator's approach

The Regulator has decided to continue with an annual approval process supported by a standing offer price approval guideline.

# 14 LENGTH OF REGULATORY PERIOD

## 14.1 Background

There is no specific statutory requirement for the Regulator to set the duration of the regulatory period until he makes his determination which must specify both the commencement and expiry dates. However, the Regulator considers that it is desirable, prior to making the determination, to seek comments from stakeholders and interested parties on the duration of the next regulatory period.

## 14.2 Draft Approach Paper

There are costs and benefits of increasing the duration of a regulatory period. Price determination investigations are time consuming and costly, with costs ultimately met by customers on standing offer tariffs. A longer regulatory period would therefore reduce those costs.

In light of the uncertain economic climate, the dynamic nature of the retail electricity market, technological change and increasing level of competition for residential customers, the Regulator considered that a longer timeframe may not be prudent.

The Regulator therefore proposed, consistent with past practice, that the next regulatory period run for three financial years, ie from 1 July 2022 to 30 June 2025.

## 14.3 Submissions

Due to resource impacts from a price investigation process, Aurora Energy recommended that the duration of the next regulatory period should be four years (rather than the proposed three years).

TasCOSS and the Tasmanian Small Business Council supported a three-year regulatory period. They considered that the recent entry of new retailers into the Tasmanian market and uncertainty about how sustainable and beneficial to consumers their presence proves to be supports a shorter rather than longer regulatory period.

## 14.4 The Regulator's approach

Having considered the submissions, the Regulator has decided that the next regulatory period will be three financial years, ie from 1 July 2022 to 30 June 2025.



## 15 OTHER ISSUES

### 15.1 Confidentiality of Aurora Energy's submission

During the 2016 pricing investigation, Aurora Energy's submission was treated as commercial in confidence and was not published on the Regulator's website. TasCOSS and the Tasmanian Small Business Council consider that it is in the interests of an open, public, transparent and fair process that Aurora Energy's submission for the next price investigation should be made public with consumers afforded an opportunity to respond.

In the interests of transparency, the Regulator has decided that Aurora Energy is to submit a version of its submission that is able to be made public. The Regulator intends publishing Aurora Energy's public submission as soon as practicable.

It is expected that, in the course of the investigation, the Regulator will require additional information from Aurora Energy that may be commercial-in-confidence.

# APPENDIX A: ABBREVIATIONS AND ACRONYMS

Term	Meaning
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Aurora Energy	Aurora Energy Pty Ltd, ABN 85 082 464 622
Authorised retailer	A person holding a retailer authorisation under the NERL
CARC	Customer acquisition and retention costs (costs incurred by a retailer in acquiring additional customers and retaining existing customers)
CER	Clean Energy Regulator
CPI	Consumer Price Index
DLF	Distribution Loss Factor
Economic Regulator Act	<i>Economic Regulator Act 2009</i>
ESI Act	<i>Electricity Supply Industry Act 1995</i>
FRC	Full Retail Competition
GWh	Gigawatt-hour (one Gigawatt-hour is 1 000 Megawatt hours or 1 000 000 kilowatt-hours)
Hydro Tasmania	Hydro Electric Corporation, from 1 July 1998, ABN 48 072 377 158
ICRC	Independent Competition and Regulatory Commission, Australian Capital Territory
IPART	Independent Pricing and Regulatory Tribunal of New South Wales
kWh	Kilowatt-hour
LGC	Large-scale Generation Certificate
Load	Electricity consumed by electricity users
Load Following Swap (LFS)	One of the types of financial contracts Hydro Tasmania is required to offer to retailers. The Regulator is required to use the LFS price in estimating Aurora Energy's WEP and, consequentially, its WEC.
LRET	Large-scale Renewable Energy Target

Term	Meaning
Mainland Tasmania	All parts of Tasmania other than any off shore island of Tasmania (except for Bruny Island)
Market retail contract	A contract between a retailer and a small customer who decides not to remain on a standard retail contract. Terms and conditions in market retail contracts can vary from contract to contract.
MLF	Marginal Loss Factor
MW	Megawatt
MWh	Megawatt-hour
NEL	National Electricity Law
NERL	National Energy Retail Law, as applied in Tasmania by the National Energy Retail Law (Tasmania) Act 2012
NEM	National Electricity Market
NER	National Electricity Rules
Next regulatory period	The regulatory period commencing on 1 July 2022
NMR	Notional maximum revenue
NTB	Notional Tariff Base. The notional tariff base comprises the customer numbers and loads for all small customers connected to the distribution network that are eligible to take supply under a regulated tariff
Price approval process	The process under which a regulated offer retailer submits its proposed standing offer prices for the Regulator's approval
Price period	A 12 month period from 1 July to 30 June (eg Period 1, Period 2, Period 3) to which Aurora Energy's annual pricing proposal and the Regulator's associated price approval relate
Pricing Regulations	<i>Electricity Supply Industry (Pricing and Related Matters) Regulations 2013</i>
QCA	Queensland Competition Authority
Regulated offer retailer	An authorised retailer who is declared to be a regulated offer retailer in accordance with an order made under section 38B(1) of the ESI Act
Regulator	The Tasmanian Economic Regulator, appointed under the <i>Economic Regulator Act 2009</i>
RET	Renewable Energy Target

Term	Meaning
Retailer authorisation	Authorisation issued by the AER under the National Energy Retail Law. Unless exempt from the requirement, a person must hold a retailer authorisation prior to engaging in the retail sale of energy.
RPP	Renewable Power Percentage
Small customer	A customer who is a small customer under the NERL
SRES	Small-scale Renewable Energy Scheme
STC	Small-scale Technology Certificate
STP	Small-scale Technology Percentage
Standard retail contract	A contract under which a regulated offer retailer provides standard retail services to small customers. The retailer is unable to change the terms and conditions set out in a standard retail contract. A small customer electing not to enter into a market retail contract with a retailer receives supply under a standard retail contract.
Standard retail services	Services provided by a regulated offer retailer under standard retail contracts in respect of small customers.
Standing offer prices	The standing offer prices, fixed, or amended under section 40 of the ESI Act. Standing offer prices are approved by the Regulator under section 41 of the ESI Act.
Standing Offer Price Strategy	Document setting out Aurora Energy's intentions with respect to, among other things, the structure of its tariffs and rebalancing of its tariffs during the upcoming regulatory period.
TasNetworks	Pty Ltd, from 1 July 2014, ABN 24 167 357 299
Treasury	The Tasmanian Department of Treasury and Finance
WEC	Wholesale Electricity Cost
WEP	The Wholesale Electricity Price is estimated by the Regulator based on wholesale contract prices generated by the Wholesale Pricing Model in accordance with the requirements of the Wholesale Contract Regulatory Instrument using a method set out in the Regulator's Standing Offer Price Approval Guideline.
Wholesale Contract Regulatory Instrument	The instrument containing the approvals made by the Regulator from time to time under section 43G(1) of the ESI Act and Regulation 20 of the Pricing Regulations, having taken into account the principles set out in section 43H of the ESI Act.

Term	Meaning
Wholesale pricing model	The model developed by Concept Consulting Group Limited for Treasury that is used to calculate the wholesale electricity price.
2013 Determination	The determination made in accordance with Regulation 22C of the <i>Electricity Supply Industry (Price Control) Regulations 2012</i> .

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## APPENDIX B: LIST OF SUBMISSIONS

The following parties made submissions in response to the Regulator's Draft Approach Paper:

- Nekon Pty Ltd;
- COTA Tasmania;
- Aurora Energy Pty Ltd;
- Department of State Growth (Renewables Tasmania);
- TasNetworks;
- Property Council of Australia;
- Energy ROI; and
- TasCOSS and the Tasmanian Council of Small Business.