



STANDING OFFER PRICE APPROVAL PROCESS

IN ACCORDANCE WITH
THE 2022 ELECTRICITY STANDING OFFER
PRICE DETERMINATION

GUIDELINE

Draft for consultation

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I INTRODUCTION

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

The *Aurora Energy Pty Ltd 2022 Standing Offer Price Determination* (2022 Determination) states how the Regulator will determine maximum standing offer prices.¹

The 2022 Determination requires Aurora Energy to submit draft standing offer prices to the Regulator for approval in accordance with the *Electricity Supply Industry Act 1995* (ESI Act) and the annual standing offer price approval process as described in this Guideline.

The Regulator allows Aurora Energy to recover the costs of supplying electricity to customers on standard retail contracts and this estimated total cost is set as the Notional Maximum Revenue (NMR) for each period of the Determination. The maximum retail prices that Aurora Energy is permitted to charge under the different tariffs during that year is required to result in a total revenue 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.

Under the 2022 Determination, the following components may be varied for each period in accordance with the 2022 Determination and this Guideline:

- the wholesale electricity price (WEP) and wholesale electricity costs (WEC);
- network costs (NC);
- renewable energy target (RET) costs;
- metering costs (M);
- the notional tariff base (NTB) which includes the number of customers and their load;
- distribution loss factor (DLF) and marginal loss factor (MLF);
- the cost-to-serve²;
- retail margin;
- Australian Energy Market Operator (AEMO) charges for market participation and ancillary services;
- under or over recoveries for pass through costs from a previous period covered by the 2016 Standing Offer Determination (CF);
- under or over recoveries for pass through costs from previous periods in the 2022 Determination (K); and
- adjustments (A).

¹ A Draft Price Determination is included in the Regulator's Draft Report.

² The cost-to-serve per customer for Period 1 is set in the 2022 Standing Offer Determination. It will be indexed for Periods 2 and 3 of the regulatory period to account for price and wage growth inflation and an efficiency factor.

This Guideline should be read in conjunction with:

- (a) the *Electricity Supply Industry Act 1995*;
- (b) the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*;
- (c) the *Aurora Energy Pty Ltd 2022 Standing Offer Price Determination*; and
- (d) the *Investigation to Determine Maximum Standing Offer Prices for Small Customers on Mainland Tasmania, Draft Report*, February 2022.

1.1 Purpose of this Guideline

This Guideline sets out the annual standing offer price approval process for approving standing offer prices in accordance with the 2022 Determination.

1.2 Application

This Guideline takes effect from the date of issue and applies to Aurora Energy as a regulated offer retailer selling electricity under standard retail contracts to small customers on mainland Tasmania (including Bruny Island).

The Guideline ceases to have effect on completion of Period 3 of the 2022 Standing Offer Determination ie on 30 June 2025.

1.3 Interpretation

In this Guideline:

“2022 Standing Offer Determination” means the standing offer determination made by the Regulator in April 2022;

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

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

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

“Consumer Price Index” or **“CPI”** means the All Groups CPI index number for Hobart (ABS CAT NO. 6401.0)

“Final Report” means the Regulator’s Investigation to determine maximum standing offer prices for small customers on mainland Tasmania, Final Report, April 2022;

“LFS is a load following swap and has the same meaning as it has in the Wholesale Contract Regulatory Instrument;

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

“Notional Maximum Revenue” means the notional maximum revenue calculated in accordance with the 2022 Determination for the relevant period;

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

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

“regulatory period” means the period from 1 July 2022 to 30 June 2025;

“relevant period” means each of the periods from 1 July 2022 to 30 June 2023, 1 July 2023 to 30 June 2024, and 1 July 2024 to 30 June 2025 as relevant;

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

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

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

“Standing Offer Tariff Strategy” means Aurora Energy’s 2022 Standing Offer Tariff Strategy;

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

“typical customers” means the set of customers identified by applying the methodology described in the *Typical Electricity Customers Information Paper* released by the Regulator in February 2020 (and later versions of that Paper);

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

“wage price index” or “WPI” means Tasmania’s Wage Price Index (ABS CAT NO. 6345.0);

“Wholesale Contract Regulatory Instrument” means the most recent instrument that specifies the regulated contracts Hydro Tasmania must offer to Authorised Retailers operating in Tasmania;

“Wholesale electricity price” means the Regulator’s calculation of the price Aurora Energy is taken to have purchased electricity, for the purpose of providing services under standard retail contracts to small customers; and

“2016 Determination” means the Aurora Energy Pty Ltd 2016 Standing Offer Price Determination issued on 5 May 2016.

2 ANNUAL STANDING OFFER PRICE APPROVAL PROCESS

2.1 Standing Offer Pricing Proposals

- (1) Aurora Energy must submit a Standing Offer Price Proposal for the relevant period to the Regulator by 31 May in each year.
- (2) The Standing Offer Price Proposal must:
 - (a) set out and describe the tariffs and charges that Aurora Energy proposes to apply for the relevant period, including the terms and conditions that will apply to each tariff and charge;
 - (b) set out, for each tariff, the draft standing offer prices that are proposed to apply for the relevant period;
 - (c) detail and justify any proposed changes to the tariffs and charges, including any changes to definitions, terms and conditions that are proposed to apply;
 - (d) demonstrate the impact of price changes on a typical customer's electricity bill; and
 - (e) demonstrate how any proposed new tariffs meet the following new tariff assessment criteria:
 - (i) the tariff is offered on an opt-in basis;
 - (ii) the tariff reflects the relevant underlying network tariffs;
 - (iv) the tariff is not linked to the provision of non-electricity services or products;
 - (v) the tariff promotes efficiency and competition in the electricity supply industry;
 - (vi) introduction of the new tariff is in the long-term interests of electricity customers;
 - (vii) the tariff price/s enables Aurora Energy to recover the costs of providing the supply of electricity and other retail services to a customer;
 - (viii) the description of the tariff and the terms and conditions are provided in clear, easily understood language;
 - (ix) Aurora Energy has consulted with its customers on the proposed new tariff; and
 - (x) adequate modelling has been conducted to determine the possible bill impacts of the proposed new tariff on typical customers.
 - (f) if a tariff is proposed to be made obsolete or abolished:
 - (i) provide justification for making the tariff obsolete or abolished; and
 - (ii) specify the impact on customers;
 - (g) provide details of the methodologies used for calculating the Notional Maximum Revenue used to determine tariff prices, including CPI, pass-through and other adjustments

- permissible under the 2022 Standing Offer Determination attributable to small customers for the relevant period and an explanation of how each standing offer price will be affected by the impact of the changes;
- (h) in the event the ABS changes the CPI index reference period, to maintain consistency, the applicable CPI under the new reference period must be converted to the previous index period using conversion factors published by the ABS. The applicable CPI is to be calculated in accordance with the 2022 Standing Offer Determination and must be rounded to four decimal places;
 - (i) demonstrate compliance with:
 - (i) the 2022 Determination (including demonstrating that the expected revenue from the standing offer prices when applied to the proposed tariffs and NTB for the relevant period does not exceed the Notional Maximum Revenue for the relevant period); and
 - (ii) this Guideline.
 - (j) be accompanied by an internal audit certificate and certified as correct by the Chairperson and one other Director of Aurora Energy.
- (3) The Regulator will, after receiving Aurora Energy’s Standing Offer Price Proposal, publish the Proposal on the Regulator’s website.

2.2 Approval of standing offer prices

- (1) The Regulator will only approve the draft standing offer prices if satisfied that:
 - (a) the draft standing offer prices are calculated in accordance with the 2022 Determination; and
 - (b) all forecasts and methods used to determine the draft standing offer prices are reasonable and have regard to the methods outlined in the Regulator’s Final Report.
- (2) If the Regulator determines that the draft standing offer prices are deficient:
 - (a) Aurora Energy must resubmit draft standing offer prices within the requested timeframes with the modifications necessary to correct the identified deficiencies and (unless the Regulator permits further modification) no further modification; or
 - (b) the Regulator may make the modifications necessary to correct the deficiencies; or
 - (c) the Regulator may refuse to approve the draft standing offer prices or the draft amendment of the standing offer prices.
- (3) If Aurora Energy fails to comply with a requirement under clause 2.2(2)(a) of this Guideline, or the resubmitted draft standing offer price fails to correct the deficiencies in the former draft standing offer prices, the Regulator may amend the draft standing offer prices to ensure they conform with the requirements of the 2022 Standing Determination.
- (4) Approved standing offer prices take effect at the commencement of the relevant period to which the standing offer prices relate.

3 PUBLICATION OF STANDING OFFER PRICES

- (1) In addition to any requirements imposed under the ESI Act, Aurora Energy must maintain on its website:
 - (a) a schedule of approved tariffs, the applicable standing offer prices and other charges;
 - (b) terms and conditions relating to each tariff ; and
 - (c) terms and conditions relating to other charges.
- (2) The information specified in clause 3(1) of this Guideline must be published on Aurora Energy's website as soon as practicable and, in any case, before 1 July of the relevant period.

4 DETERMINING NMR COMPONENTS

4.1 Calculating the Wholesale Electricity Price

- (1) The Regulator will use the following method to calculate the wholesale electricity price (WEP) for Periods 1, 2 and 3:
 - (a) multiply the weekly regulated load following swap (LFS) price for each respective quarter of the relevant period by the weekly Absolute Minimum Capacity Offer Volume for that quarter for eight quarters preceding the start of each quarter of the relevant period;
 - (b) for those weeks where Hydro Tasmania is not required to offer regulated contracts, set the respective Absolute Minimum Capacity Offer Volumes to zero;
 - (c) for all future weeks for which there is no regulated LFS price at the time that the Economic Regulator calculates the WEP, use the respective weekly point-in-time regulated LFS price for that quarter of the relevant period in the week that the Regulator calculates the WEP;
 - (d) divide the sum of the values calculated in accordance with clause 4.1(1)(a) by the sum of the weekly Absolute Minimum Capacity Offer Volumes for the eight quarters preceding the start of each quarter of the relevant period.
- (2) The Regulator will provide the WEP, calculated in accordance with the method outlined in clause 4.1(1) for the relevant period, to Aurora Energy, not less than seven days prior to 30 May in each year.

4.2 Revising the Notional Tariff Base

- (1) The following methodology is to be adopted in estimating the Notional Tariff Base (NTB) for Periods 1, 2 and 3:
 - (a) Period 1: the Regulator will assess Aurora Energy's forecast NTB for Period 1 taking into account the mid-point of actual customer number data Aurora Energy has reported to the Australian Energy Regulator for the quarter ending 31 March 2022 and a forecast of customer numbers as at 31 March 2023;
 - (b) Period 2: the Regulator will assess Aurora Energy's forecast NTB for Period 2 taking into account the mid-point of actual customer number data reported by Aurora Energy to the Australian Energy Regulator for the quarter ending 31 March 2023 and a forecast of customer numbers as at 31 March 2024 ;
 - (c) Period 3: the Regulator will assess Aurora Energy's forecast NTB for Period 3 taking into account the mid-point actual customer number data reported by Aurora Energy to the Australian Energy Regulator for the quarter ending 31 March 2024 and a forecast of customer numbers as at 31 March 2025;

- (2) In each of its annual pricing proposals for Periods 1, 2 and 3, Aurora Energy is to submit details of its forecast load that relates to the customer numbers it submits in accordance with clauses 4.2(1)(a), 4.2(1)(b) and 4.2(1)(c) respectively. The load in Aurora Energy’s forecast NTB will be 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.

4.3 Calculating adjustments (A)

- (1) The following method is to be used to calculate an adjustment (ie the A component of the notional maximum revenue, NMR) under regulations 12 and 16 of the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*:
- (a) if the adjustment is due to an error, or omission, the value of the adjustment is to be calculated with reference to the impact of the error on the NMR ie the NMR will be recalculated incorporating the correct value but with all other values held constant. The difference between the original NMR and the recalculated NMR will be the value of the adjustment (A); and
 - (b) in all other cases, the adjustment is to be calculated using a method approved by the Regulator.
- (2) The adjustment may include an allowance for the applicable retail margin.

4.4 Calculating the cost to serve allowance

- (1) As set out in the 2022 Determination, the cost to serve allowance for Period 2 and 3 will be adjusted by an inflationary factor and an efficiency factor in each period.
- (2) In each of its annual pricing proposals for Periods 2 and 3, Aurora Energy is to submit details of the inflationary and efficiency factors it has used.