



# STANDING OFFER PRICE APPROVAL PROCESS

IN ACCORDANCE WITH  
THE 2022 ELECTRICITY STANDING OFFER  
PRICE DETERMINATION

GUIDELINE

29 April 2022

Published April 2022  
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ISBN 978 1 922379 81 8  
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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.

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. That is, by applying the prices under each tariff to the billing days and load relating to the forecast number of customers under that tariff a notional amount of annual revenue is calculated for each tariff. The aggregate of this calculation for all tariffs must not exceed the Notional Maximum Revenue or NMR.

Under the 2022 Determination, the following components may be varied for each year of 2022-23, 2023-24 and 2024-25 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 comprises forecasts of the number of customers and their load;
- distribution loss factor (DLF) and marginal loss factor (MLF);
- the cost to serve;<sup>1</sup>
- retail margin;<sup>2</sup>
- 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 Determination (CF);
- under or over recoveries for pass through costs from previous periods in the 2022 Determination (K); and
- adjustments (A).

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<sup>1</sup> The cost to serve per customer for 2022-23 is set in the 2022 Standing Offer Price Determination in 2020-21 dollars. It will be calculated for 2022-23 as part of the price approval process. For 2023-24 and 2024-25 the cost to serve will be adjusted to account for price and wage inflation, an efficiency factor and, if required, a customer number adjustment factor.

<sup>2</sup> The retail margin per customer for 2022-23 is set in the 2022 Standing Offer Price Determination. For 2023-24 and 2024-25, the retail margin will be indexed to account for price inflation.

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 *2022 Standing Offer Electricity Pricing Investigation, Final Report*, 29 April 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 30 June 2025.

## 1.3 Interpretation

In this Guideline:

**“2016 Determination”** means the price determination made by the Regulator on 5 May 2016 as amended on 27 June 2016;

**“2022 Determination”** means the price determination made by the Regulator on 29 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 *2022 Standing Offer Pricing Investigation, Final Report*, issued on 29 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 **Year**;

**“Year”** means the financial years 2022-23, 2023-24 and 2024-25;

**“proposed new tariffs”** means new standing offer tariffs proposed by Aurora Energy during the standing offer price approval process for any year;

**“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 year”** means each of the years 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”** means a customer using less than 150 MWh of electricity per annum;

**“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 approved 2022 Standing Offer Tariff Strategy for the 2022 Determination;

**“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 in 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 for the private sector (ABS CAT NO. 6345.0);

**“Wholesale Contract Regulatory Instrument”** means the most recent instrument that specifies the regulated financial risk contracts Hydro Tasmania must offer to authorised retailers operating in Tasmania; and

**“Wholesale electricity price”** means the Regulator’s calculation of the price Aurora Energy is taken to have paid when purchasing electricity, for the purpose of providing services under standard retail contracts to small customers.

## 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 year to the Regulator by 31 May of the previous 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 year, 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 year;
  - (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 typical customers' electricity bills; 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<sup>3</sup>;
    - (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 proposed price for the new tariff 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.

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

- (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 wage and price indexation, pass-through and other adjustments permissible under the 2022 Determination attributable to small customers for the relevant period and an explanation of how each standing offer price will be impacted;
  - (h) in the event the ABS changes the CPI or WPI index reference period, to maintain consistency, the applicable CPI or WPI under the new reference period must be converted to the previous index period using conversion factors published by the ABS. The applicable CPI or WPI is to be calculated in accordance with the 2022 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 year does not exceed the Notional Maximum Revenue for the relevant year); 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 does not approve the draft standing offer prices because they 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 comply with the requirements of the 2022 Determination.
- (4) Approved standing offer prices take effect at the commencement of the relevant year 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 year.

## 4 DETERMINING NMR COMPONENTS AND INPUTS

### 4.1 Calculating the Wholesale Electricity Price

- (1) The Regulator will use the following method to calculate the wholesale electricity price (WEP) for each year:
  - (a) multiply the weekly regulated load following swap (LFS) price for each respective quarter of the relevant year by the weekly Absolute Minimum Capacity Offer Volume for that quarter for eight quarters preceding the start of each quarter of the relevant year;
  - (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 Regulator calculates the WEP, use the respective weekly point-in-time regulated LFS price for that quarter of the relevant year 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 year.
- (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 31 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 each year:
  - (a) 2022-23: the Regulator will assess Aurora Energy's forecast NTB using 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) 2023-24: the Regulator will assess Aurora Energy's forecast NTB using 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) 2024-25: the Regulator will assess Aurora Energy's forecast NTB using the mid-point of 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 pricing proposal for each year, 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 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 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 Regulation 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:
- (a) the cost to serve allowance for 2022-23 is to be set by adjusting the allowance in 2020-21 dollars by a wage and price inflationary factor;
  - (b) the cost to serve allowance for 2023-24 and 2024-25 will be adjusted by a wage and price inflationary factor, an efficiency factor and, if necessary, a customer number adjustment factor
- (2) In each of its annual pricing proposals, Aurora Energy is to submit details of the wage and price inflationary factors and, if required, the efficiency factor and the customer number adjustment factor it has used.