Reply from COTA Tasmania

on the

Draft 2022 Standing Offer Electricity Price Investigation

Undertaken by

The Tasmanian Economic Regulator

24 March 2022

About COTA Tasmania
COTA Tasmania (Council on the Ageing [Tas] Inc) is a not-for-profit organisation, operating as a peak body for a wide range of organisations and individuals who are committed to encouraging our community to think positively about ageing. This involves promoting and encouraging social inclusion and championing the rights and interests of Tasmanians as they age.

The vision of COTA Tas as that ageing in Australia is a time of possibility, opportunity and influence.

For further information or advice regarding the content of this document, please contact:
Sue Leitch
Chief Executive Officer
COTA Tasmania
Level 12, 39 Murray Street
HOBART TAS 7000
Phone: (03) 6231 3265
Mobile: 0448 281 897
Email: suel@cotatas.org.au

Background

This investigation by the Tasmanian Economic Regulator outlines the approach which has been taken in determining the maximum standing offer electricity prices which are provided by Aurora Energy, the dominant electricity retailer in Tasmania.

The Regulator has adopted a 'building block" approach under which a range of costs are summed to arrive at the total costs faced by Aurora Energy. The costs included in this approach include:

- Wholesale electricity costs;
- Network costs;
- Renewable energy target (RET) costs;
- Metering costs;
- Australian Energy Market Operator (AEMO) costs
- Aurora Energy retail costs (Cost to Serve); and
- A retail margin.

Some of these costs are set by other processes. For example the network costs of TasNetworks are approved by the Australian Energy Regulator. Other costs, including the Cost to Serve and the Retail Margin are approved by the Tasmanian Economic Regulator.

Under the legislation governing the Tasmania Economic Regulator, the regulatory process establishes the Notional Maximum Revenue (NMR) that Aurora Energy can recover, and the maximum retail prices which can be charged to meet this revenue target under the various regulated tariffs offered by Aurora Energy.

In response to this draft report COTA Tasmania will constrain its comments to the following areas as they represent the dominant elements of the retail electricity price which can be affected by the Regulator's determination:

- RET costs;
- Metering costs;
- Aurora Energy's Cost to Serve; and
- The retail margin.

COTA Tasmania will also make some concluding comments on the impact of the digital divide and the importance of improving digital literacy for all Tasmanians, especially older Tasmanians.

As an overarching comment COTA Tasmania wishes to congratulate the Regulator on this draft report which we believe clearly highlights a number of issues we have been raising in relation to the strategic direction taken by Aurora Energy following the closure of Aurora Online a number of years ago.

We also support the approach taken by the Regulator in applying the 'building block' approach. However, we also consider that, as Aurora Energy adopted a strategic direction which is at odds with that taken by virtually all energy retailers in Australia, the outcome derived from the 'building block' approach must be strongly tempered by the benchmarking data contained in the draft Determination when considering the NMR which can be recovered. This benchmarking data includes not only the quantum of identified cost elements, but also the trends other retailers have been able to deliver to their customer base over recent years.

COTA Tasmania also considers that the regulator represents those who have very limited market power and are frequently on fixed and/or low incomes. For these people energy costs represent a significant, and largely unavoidable element, of their living costs and any increase in prices will have a disproportionate impact on this cohort of consumers.

RET Costs

While we acknowledge the methodology chosen to determine the RET costs, COTA Tasmania seeks that these costs are applied equitably across all consumers. Given these costs represent 10% of the cost of electricity (page 7 of the draft Report), an approach which is not underpinned by equity has the potential to severely impact on low income consumers. As more renewable energy enters the system, both large scale and home based, these costs can be expected to increase further.

We are finding an increasing number of older Tasmanians are in rental accommodation or have residential arrangements which place them in circumstances where they do not have access to the concession arrangements provided for low-income energy consumers.

Many older Tasmanians are also unable to take advantage of installing their own renewable energy systems either because of financial constraints or their age, which would not permit them to achieve a return on such investments over their remaining expected life.

In these circumstances the RET cost will potentially fall disproportionately upon those least able to avoid them. For those able to install a home based renewable energy system and consequently reduce the amount of energy purchased through a retailer, the level of RET they pay is substantially reduced. These energy consumers also directly benefit from the RET schemes.

As a result, if we are to continue to apply a RET charge to retail prices, we consider that these costs should be apportioned across all consumers in a manner which reflects their total household energy consumption, not just the amount of energy purchased from a retailer.

We consider that as the penetration of advanced meters increases over the next few years such apportionment will become viable for the overwhelming majority of consumers and that this reflects a fairer allocation of this cost element.

The current approach to the allocation of RET costs potentially represents a significant cross subsidy from those who are able to take advantage of the renewable energy opportunities available to them and those who are unable to take advantage of these opportunities.

Metering Costs

COTA Tasmania notes that in the Draft Determination report that the metering costs for Aurora Energy have increased from $13.2m in 2016/17 to $25.9m in 2021/22. We are concerned at this rapid escalation of metering costs. Metering now represents around 5% of the NMR. Given only one third of households currently have an advanced meter it is likely this cost escalation will continue and metering costs could be as high as $40 or $45m once the penetration reaches 90% or higher.

We note that the Regulator in its 2016 Determination has permitted Aurora to recover:

- the depreciation associated with capital expenditure required to meet the set up costs associated with the start of metering competition;
- the fee based meter services costs;
- the aggregate metering charges based on tariff, meter type and billing days for both advanced and accumulation meters; and
- the annual capital cost associated with accumulation meters that have been replaced by advanced meters.

We would seek in its final Determination that the Regulator clearly highlight the rational for the inclusion of each of these elements. From our reading of the draft Report there is the appearance of some double counting.

In particular, we question why capital expenditures from a past period on the provision of accumulation meters is included as well as the depreciation of the advanced meters which are being installed and will replace the accumulation meter.

We would expect that past capital expenditures on accumulation meters would have largely been written off and no information has been provided to justify the inclusion of this item.

We also seek to understand the distinction between aggregate metering charges and the costs associated with fee based metering services. It appears that the inclusion of both these charges may reflect some further double counting.

As a final point in regard to metering costs, COTA Tasmania considers that metering costs should be discounted by the benefits which are presumed to flow from the provision of advanced meters. There are many benefits to a retailer from having detailed hour by hour data across its total consumer base. These benefits include the provision of energy products which lead to operational efficiencies for the retailer and a vastly improved understanding of the aggregate demand for electricity which could be used to secure improved wholesale price arrangements.

By only considering the cost side of advanced metering, and not including the benefits which must necessarily flow from such investment, retailers are either obtaining a significant benefit to their bottom line where they utilize the data provided to improve their operational efficiency or they are being rewarded for failing to adopt the benefits accruing from advanced meters.

In either case, given consumers are being required to cover the full cost of metering, including perhaps some double counting of those costs, there is certainly justification that the efficiencies which should also flow to Aurora and its business operations from advanced metering should be returned either in full or part to consumers to offset this significant cost element.

Aurora Energy's Cost to Serve

Our consideration of the Cost to Serve (CTS) element will be broken into two parts. Firstly, we will consider the CTS, net of aurora+ in this section, while in the next section we will specifically consider aurora+.

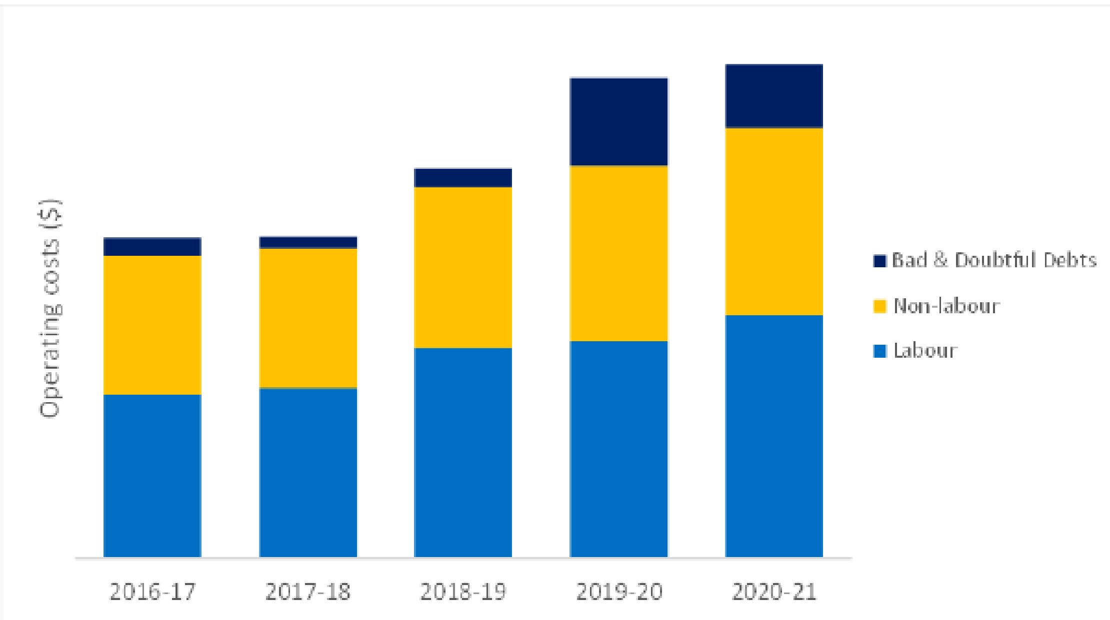
CTS Trends

In its submission to the Regulator Aurora has sought a CTS allowance of $172.54 per customer inclusive of aurora+. Aurora has indicated that the cost per customer of the app based product is $17.33 per customer. This would indicate that the CTS allowance they are seeking, net of aurora+, is $155.21.

This represents an underlying increase of 4.01% on the existing allowance at a time when other retailers are delivering significant efficiencies in respect of their CTS.

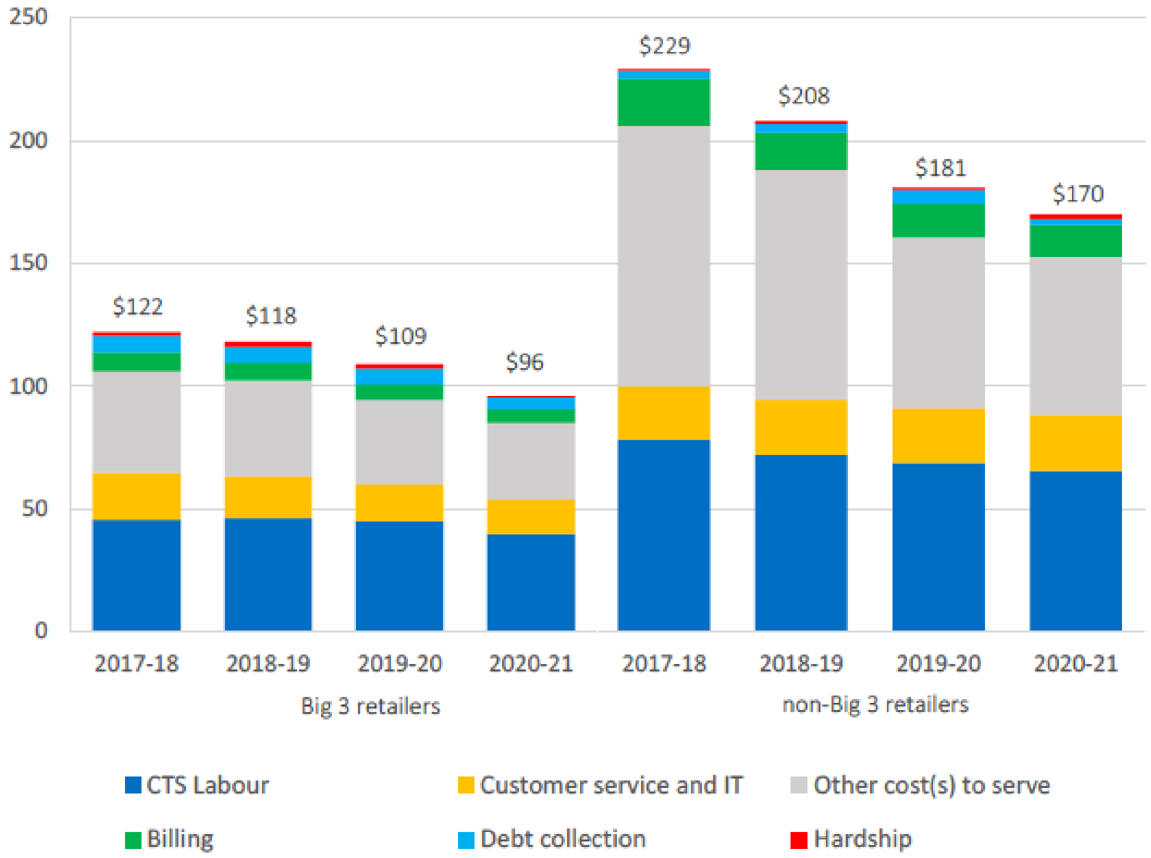
In considering the CTS we note the information contained in figures 7.1 and 7.3 from the draft Determination which are shown below.

Figure 7.1 Trends in Aurora Energy's retail operating costs ($nominal)



Source: Aurora Energy.

Figure 7.3 Average retail and other costs per customer[19], 2017-18 to 2020-21 ($2020-21, excluding GST)



What immediately stands out from the consideration of these two charts is that both the Big 3 retailers and also the non-Big 3 retailers have been able to deliver CTS outcomes which show annual declines of 7.61% and 8.51% respectively.

In contrast Aurora Energy has seen its CTS, net of aurora+, increase by 1.5% annually over the same period. We had the opportunity to query this with Aurora and they responded that they neither had the size economies of the Big 3, nor the boutique market focus of the non-Big 3 retailers and as such have not been able to structure their retailing operations to access the efficiencies which other retailers have achieved.

We would seek that the Regulator seriously question why Aurora appears unable to access the significant operational efficiencies other retailers have clearly been able to apply to their businesses.

Aurora's Strategic Direction and its Impact on CTS

A more detailed look at these charts indicates that while the labour cost element has been generally declining for other retailers, Aurora has experienced a sharp increase in its CTS labour costs since 2017/18. Similarly, Aurora has seen its bad and doubtful debt costs increase significantly over the last two years for which data is shown. Other retailers appear to have been better able to manage their debt collection costs.

COTA Tasmania considers that this outcome for Aurora, which contrasts sharply with what is happening for other retailers, is a result of a conscious strategic decision by Aurora when faced with the need to close its ailing Aurora Online product.

Whereas other retailers moved quickly to incorporate up to date app-based products into their standard consumer offerings and have realized the efficiency of this approach, Aurora made the decision to move from a system which permitted minimal customer service operator involvement in answering day to day queries to a system which required a customer service operator to be involved in virtually all customer queries.

Furthermore, Aurora decided upon a path which involved the creation, from the ground up, a totally new customer interface for its standard product offerings. At the same time Aurora was using this new web interface, and also its customer call centre, as a major plank of its aurora+ marketing campaign.

Labour Costs

COTA Tasmania has previously argued that Aurora was embarking upon an expensive customer service strategy and the data presented in this draft Report highlights exactly the outcome we have predicted. While the draft report does not specify the underlying numbers in figures 7.1 and 7.3 it appears that Aurora's labour costs have risen by at about 30%, while other retailers have seen their labour costs decline by perhaps as much as 15% over the same period.

We would therefore argue strongly that in establishing its cost base for the forthcoming Determination that the Regulator adopt the labour costs identified for 2016/17 and 2017/18. That Aurora made a strategic decision to head down a path which was in the opposite direction to all other retailers should not be rewarded as part of this Determination.

We note that the Regulator has applied an efficiency factor to the labour cost element of the draft Determination. However, it appears that this efficiency factor has been applied to an unreasonably high base figure. It may be argued that on a point element basis this base figure is reasonable based on the benchmarking data provided. Such an argument however seeks to ignore the consistent, and opposite, trend associated with this benchmarking data.

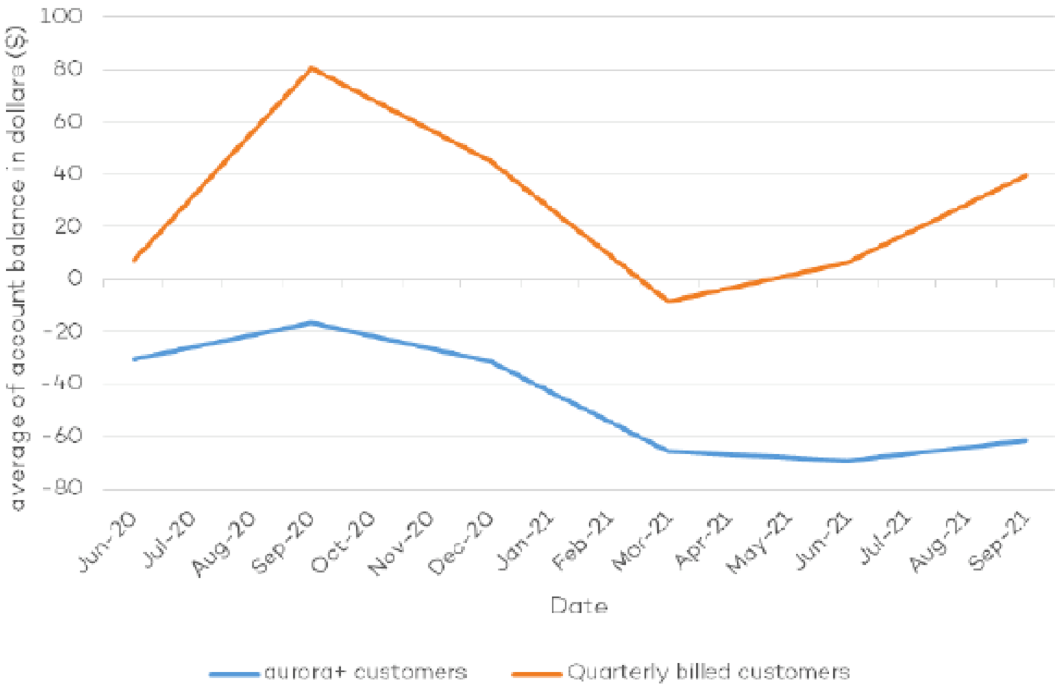
We consider the efficiency factor, which reflects the labour cost efficiencies which Aurora should be able to meet, should be based on the experience of other retailers as provided in figure 7.3. We also consider that the efficiency factor proposed by the Regulator is only appropriate for the labour costs associated with the years prior to the closure of Aurora Online.

Should the Regulator seek to use the current CTS labour costs as its base year, then we consider that efficiency factors of between 8 and 10% should be applied over the forthcoming Determination period to reflect the need for Aurora to catch up with the CTS efficiency which other retailers have delivered to their customers.

Bad and Doubtful Debt Costs

Further to the CTS allowance contained in this draft Determination, we note the information contained in figure 7.2 of the report and shown below.

Figure 7.2 Average bill/outstanding debt level comparison of aurora+ customers to non-aurora+ customers



Source: Aurora Energy submission, page 27

In considering the level of bad and doubtful debts incurred by Aurora, COTA Tasmania acknowledges the significant impact of covid. However, we also consider that there is an element of the increase level of bad and doubtful debts which is associated with Aurora's strategic decision to not offer an app based product as part of its standard product offering.

Figure 7.2 clearly shows the differences in the account balances of those customers who had access to better energy and account data as compared to those customers who were provided with an extremely poor web based interface. We seek that the Regulator investigate and assess the impact that the wide availability of aurora+ would have had on bad and doubtful debts.

We believe that had Aurora provided aurora+ as its standard product offering then, instead of allocating significant resources to gaining customers for aurora+, and the benefits show in figure 7.2, Aurora could have been more proactive in marketing the wide range of payment options available to consumers and the benefits of these payment options in managing what to many households is a significant household expense.

Clearly, from the data presented in this chart, customers who were able to access up to date account information, without needing to interact with a customer service officer, either directly or indirectly, were better able to manage their bills. This better management of bills associated with the app has potentially provided Aurora with two significant benefits.

Firstly, bad and doubtful debts, together with the significant costs of managing those outcomes have potentially been reduced substantially, and secondly, customers appear to be taking advantage of the more flexible payment options available through the use of the app. Both of these benefits should have improved Aurora's cash flow management and reduced its explicit and implicit financing costs which are associated with the more traditional 90 day billing cycle.

COTA Tasmania understands there has been a covid effect on the level of bad and doubtful debts experienced by Aurora, and this is supported by the data in figure 7.3 for other retailers. However, we request that the Regulator look more closely at the actual level of these expenses for Aurora and seek to identify the extent to which this cost element has been influenced by their strategic decision to not adopt an app based approach when seeking to replace Aurora Online.

By basing the draft Determination on the current level of bad and doubtful debts, COTA Tasmania considers that the Regulator is rewarding Aurora's strategic decision to not offer an app based product as part of its standard offering. We consider that the current outcome was foreseeable and have sought to discuss with Aurora since that decision was made.

We therefore consider that the Determination should be based on a bad and doubtful debt figure which better reflects the underlying covid impact and removes the impact of Aurora's strategic decision making. While uncertain as to what the effect may be, we consider that that an efficiency factor be applied to this in order to encourage Aurora to improve the level of digital, energy and financial literacy of its customers and the benefits which flow to both Aurora and its customers from better budgeting and management of their electricity consumption.

As the implementation of advanced meters proceeds apace the opportunity for Aurora to undertake such improvements is a significant opportunity for it to further reduce its Cost to Serve.

Forms Based Customer Interface

The CTS for the standard retail offerings includes the cost of providing Aurora's customer facing information system, including the call centre and the forms-based customer interface which has been developed since Aurora closed the Aurora Online facility. We note that both the Regulator in its draft report and Aurora in its submission have been silent in regard to the cost of these two CTS elements.

Aurora stated to us when questioned that it did not have to hand the cost of its form based offering, despite being able to request that the CTS be increased by $17.33 per customer if aurora+ is to replace this offering. They did however indicate that the current offering is an inefficient manual handling process as compared to the streamlined automated processes associated with aurora+.

We consider that in determining the CTS allowance, net of aurora+, the Regulator must determine the cost of providing the current forms-based offering and remove that cost from its consideration.

As virtually all other retailers have moved to app-based approaches as part of their standard retail offerings, and in the process have delivered significant efficiency gains to their customers, COTA Tasmania would suggest that, as a minimum, the cost of delivering any kind of on-line customer facing information system would be at least at the level Aurora is claiming for its aurora+ product.

We therefore consider that the CTS, net of aurora+, be discounted by either $17.33, the cost claimed by Aurora, or $!4.15, the allowance the Regulator has provided in their draft Determination. Either way, to propose a CTS, net of aurora+, which does not exclude the cost of the current customer facing offering, will be double counting that cost should aurora+ be provided as an integral part of the standard retail product as is being sought by Aurora, and proposed by the Regulator.

<u>CTS Summary</u>

In summary, COTA Tasmania considers that the CTS allowance of $142.27 (net of aurora+) as proposed in the draft Determination should be discounted to reflect the discussion we have present above.

In our view the CTS allowance should be somewhere in the region of $125 to $129 (net of aurora+). Such a figure reflects:
- the use of the base year labour costs;
- a recognition of the increase in bad and doubtful debts associated with covid; and
- the fact that Aurora no longer has to provide its inefficient forms-based customer facing information system which has a large manual handling component.

We consider this allowance to be generous to Aurora given it consciously chose a path that did not permit it to achieve the high level of efficiencies gained by other Australian retailers.

aurora+

COTA Tasmania fully supports the provision of aurora+ as an integral element of the standard retail energy offering. We note that both Aurora and the Regulator have both indicated that if provided as a standard element the cost per customer for aurora+ falls to significantly less than 50% of the current charge Aurora is applying to the app.

Considering that around 40,000 customers have adopted aurora+, we estimate that Aurora would currently be receiving around $1.6m per annum from fees. Under the proposal to provide a $14.15 allowance for aurora+ within the CTS, the revenue from the app would increase to $3.85m per annum. Under Aurora’s proposal, revenue from aurora+ would be nearly $1m higher at $4.7m per annum.

COTA Tasmania seriously questions the need for an increase in revenue of this amount to cover the costs of its customer facing on-line information service on the following grounds.

aurora+ is just another information channel for customers to use

Irrespective of how an online customer facing information system is provided, whether by an app or by the forms-based interface, Aurora will still be providing a phone based customer inquiry line. COTA Tasmania considers this an essential element of Aurora's customer service function as not all queries can be answered by an app and also because many Tasmanians, and in particular many older Tasmanians, lack either the digital literacy or digital access to use an app or both.

Any call centre operated by Aurora will, as a necessity, provide a call centre operator with access to, as a minimum, all the services provided by an online customer facing information system such as aurora+. As such, and as part of its minimal customer servicing function, Aurora must collate a range of customer information and metrics.

Furthermore, the compilation of this information, either on an individual basis, or in some kind of searchable aggregation, would surely be an important part of Aurora simply understanding its business. In this regard we do understand that Aurora is developing a series of customer profiles to assist it in managing its business and better meeting its customer needs.

Given the above, the data provided by any online customer facing information system, such as aurora+, is already present within the Aurora systems and the only cost that would be attributable to that system would be the cost of systems development and maintenance, and the very small cost of data retrieval.

Does aurora+ really result in higher costs across the full customer base

Aurora is on record as stating that those customers who use aurora+ impose a greater cost on their customer service function than other customers. While this may be true for the current 13% of customers who have taken up, and paid for, aurora+ during its initial roll out phase, COTA Tasmania considers this cost should be discounted. As a minimum a discount should be applied as a result of the superior billing outcome of those using the app and the direct benefits Aurora gains from this better billing outcome.

COTA Tasmania would also argue that across the customer base there are significantly different customer cohorts including:

- those who find themselves in financial difficulty;
- those who want to have very detailed information about their energy use on a time sensitive basis and are willing to pay for such a service;
- those who want more flexible payment opportunities;
- those who will only use a call centre; and
- those who just pay their bill when it is due and do not engage further with Aurora.

We consider that the reason Aurora is currently experiencing a relatively high cost associated with servicing aurora+ customer stems from the fact that it explicitly charges for the product. When explicitly paying for something a customer will use it and that cohort of customers who have taken up the product to date are those with the greatest interest in their energy consumption. We therefore do not think the experience gained to date in relation to the cost of supporting aurora+ can be applied uniformly across the whole customer base.

Perhaps, and without being provided with any information on the size of this cohort, as much as 50% of Aurora's customers simply pay their bill and either have very limited interaction with, or do not interact with, Aurora in any other way.

What is the current breakeven revenue for aurora+

As an existing and distinct commercial offering from Aurora we would hope that the current revenue from aurora+ is at least paying the fixed costs of developing and maintaining the app. Information we have obtained on a commercial-in-confidence basis from another business would indicate that the development costs for an app with the range of features of aurora+ would be in the range of some hundreds of thousands of dollars, especially as it should be largely querying an existing data set maintained by Aurora as part of its standard product offering.

If aurora+ is currently breaking even, then that indicates that a fixed base cost of around $1.5m to $1.6m is sufficient to cover ongoing development, maintenance and capacity as the marginal costs of an additional consumer using the app would be very low.

We consider that the Regulator has not clearly identified the fixed and variable costs of aurora+ in its draft Determination, and in specifying the revenue needs to incorporate aurora+ as part of the standard retail offering, the Regulator should identify the current financial outcome for the commercial offering of aurora+.

If aurora+, with a revenue of between $1.5 and $1.6m per annum is not meeting its expenses, then COTA Tasmania would seek an indication of the revenue required for aurora+ to break even in terms of total revenue, how that revenue is applied and customer base. We seriously doubt it is in the region of $3.85m per annum as provided for by the Regulator. This is particularly the case since Aurora acknowledges that its costs are largely fixed (section 7.3.9 of the draft Determination).

If aurora+ is meeting its revenue needs as a commercial product, and is not currently being cross-subsidised from other areas of Aurora's business, then based on the company's own statement little additional revenue would be required to extend the aurora+ offering to all customers.

Either way, we consider that the Regulator needs to provide substantially more justification to the determination of the cost allowance proposed for aurora+. Given a generous gross revenue requirement of around, say $2 million per annum, to support the development, maintenance, technology and access cost associated with aurora+ the cost per customer would perhaps be around $7 to $8 per annum.

As discussed above, offsetting any determination with respect to aurora+ will be the cost of the existing inefficient forms-based enquiry system which requires considerable manual handling of most queries.

Cost to Serve (inclusive of aurora+)

As we have outlined above, the draft Determination is rewarding Aurora for taking a business direction which was distinctly different from that of virtually all other electricity retailers in Australia. While we accept the validity of applying a 'building block' approach, this approach must be strongly tempered by what is happening within the sector generally. That benchmarking data shows retailers making significant efficiency gains. A regulated entity which does not have to face the realities of the market within which it is operating runs the risk that its management will operate in a fashion which does not deliver the most efficient outcome to customers.

In the case of a critical consumer offering such as electricity, efficiency should be upmost in the Regulator's consideration. In relation to the CTS allowance we consider that the Regulator has not given sufficient consideration to the extent to which Aurora has failed to deliver the level of efficiencies provided by retailers across Australia. Based upon the analysis present above COTA Tasmania considers that the CTS (inclusive of aurora+) should be in the range of $132 to $137 per customer per annum.

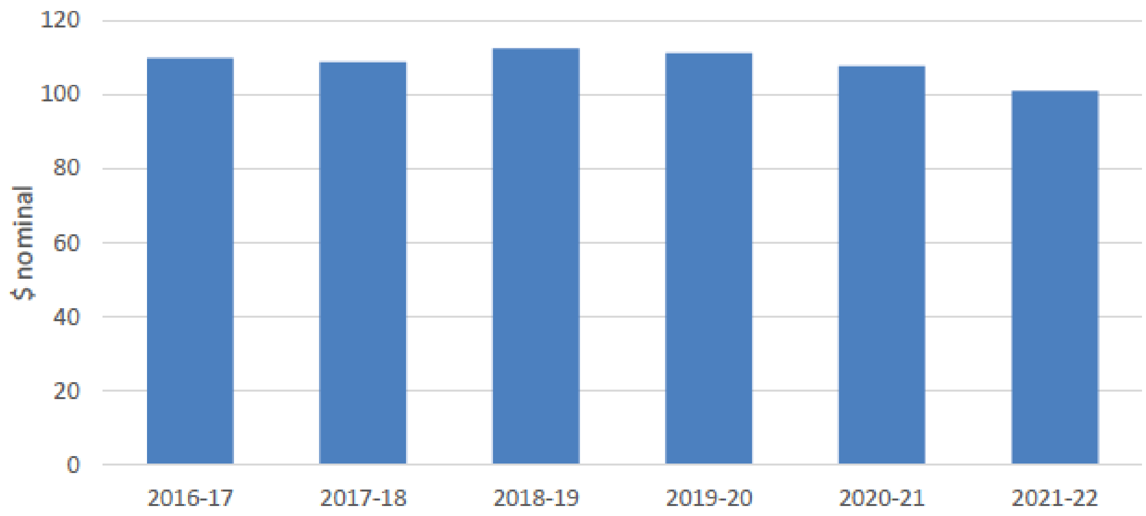
We note that this is lower than the Regulator's draft determination. However, we believe that as Aurora took a deliberate strategic decision which was at odds with virtually all other retailers that this allowance is appropriate. We acknowledge such an allowance puts pressure on Aurora to deliver significant efficiencies, but we also consider Tasmanian consumers have paid a high price already for Aurora's failure to deliver the efficiencies provided by retailers across Australia. To provide Aurora with a CTS allowance any higher than that suggested above simply imposes excessive costs on Tasmanian electricity consumers.

A CTS allowance in this range also reduces the chance that consumers are continuing to support services that are no longer required.

The Retail Margin

In assessing the draft Determination in regards to the retail margin, COTA Tasmania is again cognizant of the data provided in the Regulators report. In particular we note figure 8.1 below which highlights a minimal decline in the retail margin over the period since 2016/17.

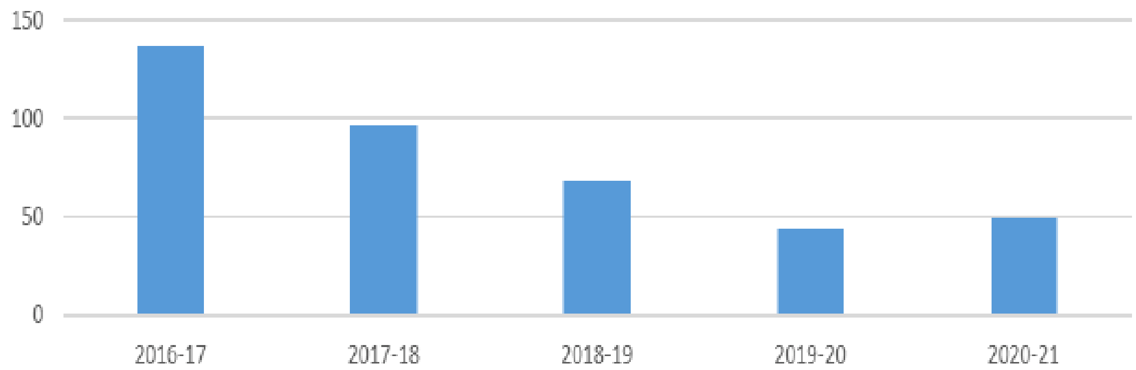
Figure 8.1 Aurora Energy's allowed retail margin per customer ($ nominal)



Source: Aurora Energy's approved retail margin and customer numbers.

In contrast to this minimal decline, the draft Determination also includes figure 8.2 which indicates the estimated retail margin in the National Electricity Market (NEM). We note that the information contained in figure 8.2 includes both the Big 3 retailers and also the non-Big 3 retailers. But we also recognize Aurora sits somewhere in between these two groupings in terms of its size, however, it holds a very dominant position in Tasmania's retail electricity market.

Figure 8.2 Estimated retail margin per average residential customer in the NEM ($/customer)



Source: ACCC Inquiry into the National Electricity Market (November 2021), page 31.

Again, and as with the CTS allowance, it is disappointing that Tasmanian electricity consumers, and particularly those on low and fixed incomes, are paying a retail margin which is around 100% higher than on average for the NEM.

We note that the 2016 Determination provided for a retail margin of 5.7% of Aurora's total costs. We also note that of Aurora's total cost base, the majority of costs (81%), covering wholesale electricity costs, transmission and distribution costs, RET costs, and AEMO costs are determined independent of Aurora and are passed through to the consumer (figure 2.1 on page 7).

COTA Tasmania considers that the retail margin should not just reflect a ticket clipping exercise by Aurora. A cost which is simply passed through to consumers creates very limited risk exposure for Aurora to manage, and little justification for it to be rewarded as a consequence.

We consider the retail margin should reflect Aurora's actual market place performance, not its mere presence and dominance in the market.

In the case of Tasmania, we recognize that our market is small. Furthermore, we recognize that Aurora has, and will continue to have, a dominant market position. We also consider that any potential retailer entering the Tasmanian market will potentially provide electricity products which either match or just undercut the Aurora offering. There is no incentive for them to pass on fully any efficiencies they may have as a result of their size within the national market.

In these circumstances the Regulator plays a very important role to ensure that Tasmanian consumers are receiving retail product offers that are highly competitive with those available in other markets and that Aurora is not over-compensated for the risks it faces within the highly regulated Tasmanian electricity market.

The draft Determination concludes Aurora faces a substantially lower energy price risk than its mainland counterparts. The draft also acknowledges that Aurora faces volume related energy price risks that are significantly different from those faced by other retailers across Australia. However, the regulator also acknowledges that as a stand-alone retailer operating only in Tasmania it faces more risks than those retailers that may be part of a vertically integrated energy company.

Taking these three risk factors on board, COTA Tasmania stresses the need for the regulated retail margin to be very price competitive with that applying across the NEM. If the retail margin is not competitive then there is the risk that Aurora's customer base could be eroded by an aggressive national retailer seeking to cherry pick the higher margin available within Tasmania, while not offering prices that are significantly lower to consumers. In effect their entry into the Tasmanian market simply becomes a profit maximizing move on their part. It would not enhance local retail competition, yet at the same time it would likely increase per customer costs for Aurora.

We note that Aurora is seeking a retail margin of $111.94 per customer and that this margin allows for CPI increases. In contrast, within the NEM the retail margin has fallen by 64% to around $50 per customer. We also note that the draft Determination provides for a retail margin of $96.25 (5.25% of allowable costs) which is nearly 100% higher than the average across the NEM.

As with the CTS, COTA Tasmania considers that the efficiencies within the retail market which are being identified by retailers in other parts of Australia are being denied to local customers. While the retail margin only reflects a small proportion of the total electricity bill, these small amounts all add up for those on low and fixed incomes.

COTA Tasmania considers that it is a core role for the Regulator to ensure that where efficiencies are being identified in relation to energy retailing within the NEM they should be made available to Tasmanian consumers. Our market is small and for many retailers it will not be worth the effort to establish a presence here. However, that is no reason to maintain a retail margin for Aurora which is nearly 100% higher than that provided by other retailers within the NEM.

What is clear from both the Aurora submission to the draft Determination, and also the response of the Regulator, is that Aurora is not being incentivized to deliver the level of operating efficiencies that a competitive market would place on Aurora.

For COTA Tasmania, and those who we represent, this is an unacceptable outcome.

As such we would consider that the retail margin should fall to a level that provides Aurora with a retail margin of around $65 to $75 per customer. This is still substantially above the average available in the NEM, yet still provides Aurora with reasonable revenue base. At this lower level of retail margin other retailers will find competing in the local market less attractive, permitting Aurora to maintain the maximum level of operation efficiency within our small market.

Concluding Comments

With the move to the delivery of services via electronic means and a lesser focus on the provision of call centre services, COTA Tasmania considers that Aurora, in partnership with the State Government and a range of other service providers should be facilitating the improvement of digital literacy skills and digital access within the Tasmanian market.

To this end we acknowledge the direct support we have received from Aurora in the past and the on-going strong relationship we have with Aurora in addressing issues of concern for those we represent.

As has been clearly identified by the draft Determination those consumers with good digital literacy skills and good digital access can avail themselves of services which will allow them to significantly impact on their energy costs. Furthermore, the success of Aurora's YES program clearly highlights the benefits of providing consumers with improved energy and financial literacy skills as well.

As we move to integrating aurora+ into the standard retail offering by Aurora we consider that there are significant opportunities for Aurora to improve the outcomes for both itself and also for its customers by being proactive in assisting consumers to upgrade their skills.

A proactive approach by Aurora within the energy market will require a change in the mindset we have seen in recent years. This is evidenced by Aurora's submission to the draft Determination which is seeking an outcome more aligned to its current business strategy at a time when retailers across the country are delivering significant efficiencies to their energy consumers.

This draft Determination proposes a return to Aurora of $252.67 in relation to the CTS and retail margin. While lower that the outcome sought by Aurora of $284.48, this draft

Determination still contrasts sharply with the outcome being experienced in mainland energy markets where strong competition, and perhaps the larger market size, is delivering real benefits for energy customers. In other markets the provision for CTS plus the retail margin may be as low as $155 when buying from one of the big three retailers or just $220 when buying from one of the smaller retailers, many of whom are smaller than Aurora.

Within this submission COTA Tasmania considers that Tasmanians, and particularly those Tasmanians on low and fixed incomes, deserve to experience the efficiencies being experienced and our submission has highlighted that an allowance of between $197 and $212 would be more appropriate.

In seeking a Determination at this level we recognize that Aurora is unable to deliver the level of efficiency that the Big 3 retailers are able to achieve. However, we also consider Aurora, given its size and market position with Tasmania should be able to deliver better outcomes for customers than that provided by smaller retailers on the mainland.

We consider that a final Determination which is much above this rate, while it may be somewhat justified using the 'building block' approach, fails to adequately incorporate the benchmarking information provided in the draft. We also consider that a Determination which is any higher does not give the correct market signals to Aurora.

Tasmania has arrived at the situation outlined in the draft Determination due to strategic decisions being taken by Aurora which are at odds with those of other retailers across Australia.

This Determination is a chance to get local electricity retailing back on track.