

Review of the Approach to Regulating Retail Electricity Prices

Summary of issues raised during a meeting between OTTER and the Tasmanian Small Business Council and Goanna Energy

Meeting date: Tuesday, 30 July 2024
Meeting time: 2:00pm to 3:30pm
Meeting location: 21 Murray Street, Hobart; MS Teams

About the entities consulted:

- The Tasmanian Small Business Council (TSBC) is an advocacy organisation supporting the Tasmanian small business sector's interests both within Tasmania and nationally.
- Goanna Energy specialises in identifying energy cost savings for medium to large commercial and industrial businesses.

Attendees:

Geoff Fader (TSBC), Marc White (Goanna Energy), Roman Domanski (Goanna Energy).

1. Duration of the regulatory period

The attendees consider that there is no reason to change the regulatory period from 3 to 4 years because of the flexibility it provides for reviewing retail energy prices and the volatile nature of the current energy market.

The attendees noted that the determination of retail energy prices can only be re-opened when there is any material change in Aurora Energy's costs or a tax event occurs. Also, a shorter period will increase the regulatory costs, but provide little benefit.

2. Aurora Energy's tariff strategy

The attendees noted that there has been a lot of angst from customers in relation to the changes in tariffs and that caution is required when making or allowing significant changes to tariffs and the impact that it can have on customers. There is a lack of appreciation amongst regulators and energy businesses about the impact of the changes of tariffs on customers.

It was agreed that it is important that customers are provided with good information in relation to tariffs and tariff changes. One attendee considers that the information about energy tariffs is too complex for the customers to understand, and some small businesses and residential customers don't have the time to consider the impacts that changes in tariff will have on them. The tariffs should be as simple as possible. An efficient method of customer education was considered to be showing a customer on their bill whether they are currently on the best available tariff. There should also be communications or media campaign once or twice a year to let customers know if they are on the most suitable tariff.

One attendee mentioned that while most small business customers are better off on Tariff 94, there are some who only operate between 8am and 5pm on weekdays that will be worse off on the time-of-use tariff, indicating that there is still a need for a flat rate tariff for small business customers.

One attendee considered that it is complex to explain to customers the three-time period structure of TasNetworks' TAS94 network tariff and noted the 12-month delay before the three-time period structure is applied to all of Aurora Energy's Tariff 94 customers. Further, attendees considered that the impact of this will not be clearly understood until October 2024 when all quarterly bills are issued by Aurora Energy. More communication to customers is therefore needed for them to understand if they are on the best tariff.

One attendee considered that customers have a relative lack of control over the large fixed component of their bills. To reduce customer impacts when Aurora Energy seeks to adjust fixed and variable components across its tariffs, attendees considered that side-constraints were a useful mechanism.

3. Calculation of the WEP component

The attendees reiterated their concerns about the WEP calculation which was raised in their previous submissions. The attendees also raised concerns that when the wholesale contract regulatory instrument was reviewed in 2024, there was a lack of communication and opportunities for stakeholders to provide input.

The attendees are attracted by the “No future price method” as it resulted in an average 0.5 per cent decrease in the WEP component if used in the past ten years. However, the attendees also acknowledged that the change in the prices in the past is not a reliable indicator of potential future changes.

One attendee considered that interstate market players may have the power to push up electricity prices in the national energy market for DMO¹ purposes. Therefore, a dollar cost averaging approach and less alignment with the timing of mainland jurisdictions in setting prices is more appropriate. Attendees commented that small business customers want price certainty. The attendees also acknowledged that there are legal constraints as to how the Regulator can calculate the WEP.

4. Treatment of costs relating to Basslink if Basslink becomes regulated

The attendees commented that the APA’s proposed recovery of revenue of \$561 million between 2025 and 2030 and its estimated RAB of more than \$800 million for Basslink both seem very high. One attendee questioned why small business customers will, according to APA’s estimates, face a bill increase of \$15 per annum which is almost twice the amount expected for residential customers (\$8) if Basslink becomes regulated, given both sets of customers use the same infrastructure for energy supply. Attendees recognised that the AER is responsible for network costs and should consider cost of living pressures facing retail customers and focus more on the efficiency of electricity entities.

5. Calculation of the cost to serve component

One attendee considered the removal of the adjustment mechanism that takes account of customer numbers and increased competition in the energy retail market in Tasmania will lead to better outcomes for customers.

When it comes to Aurora Energy’s cloud-based software costs, attendees considered that it is more logical to treat the costs as capital expenditures as its benefits are derived over the life of the software.

Attendees also raised concerns about the allocation of Aurora Energy’s costs between regulated and unregulated customers. Further, attendees considered the Regulator should increase the transparency about the separation of costs between regulated and non-regulated customers. Given the size of Aurora Energy’s business, attendees queried the rationale for not requiring Aurora Energy to prepare regulatory accounts to ensure that Aurora Energy’s unregulated customers are not cross-subsidising regulated customers or vice versa.

6. Calculation of LGC costs

One attendee considered the Regulator should apply the same level of scrutiny to the calculation of LGC costs as was applied to the calculation of wholesale electricity costs in the Draft Report. In particular, the attendee noted that the prices agreed under the Power Purchase Agreement (PPA) with the Cattle Hill windfarm were reported in Aurora Energy’s annual report as an onerous contract in the past and does not consider that regulated customers should be paying for this. If the LGC costs associated with the Cattle Hill windfarm PPA is included in LGC costs for the next determination, the attendee would like some level of confidence that the inclusion is prudent.

¹ DMO stands for default market offer, which is a rule that limits the price that retailers can charge electricity customers on default contracts, known as standing offer contracts, in the region of south-east Queensland, New South Wales, and South Australia.

7. Calculation of metering costs

One attendee queried whether TasNetworks or customers need to pay for the installation of advanced meters when asbestos is found in the customers' meter boxes.

One attendee supported the deferral of smart meter installations, as this will spread the installation costs over a longer period and put some downward pressures on prices.

8. Calculation of retail margin

One attendee considered that in 2022, the Regulator missed an opportunity to trim Aurora Energy's retail margin based on the outcomes of benchmarking. There are also risks for, and deterrents for, new energy retailers entering the Tasmanian market, which include:

- Liquidity risk due to Hydro Tasmania being the sole generator;
- Regional risk due to the single interconnector; and
- A small market resulting in lower customer turnover.

One attendee noted that the Regulator uses judgement to reach a balance between promoting competition and protecting customers. It was considered that the Regulator has done well to keep a lid on the retail margin while incentivising competition amongst energy retailers in Tasmania.

9. Treatment of unaccounted for energy

Attendees considered that there should be some incentives for Aurora Energy to minimise the volume of unaccounted for energy. It was also considered that Aurora Energy is compensated for this risk through the retail margin. Attendees also sought further information about which body calculates and provides details of the unaccounted for energy to retailers eg AEMO.