Review of the Approach to Regulating Retail Electricity Prices

Summary of issues raised during a meeting between OTTER and Council on the Ageing Tasmania, Salvation Army, and the Tasmanian Council of Social Service

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

About the entities consulted:

- The Council on the Ageing Tasmania (COTA) advocates for the rights and interests of older Tasmanians.
- The Salvation Army provides a large array of spiritual and social services throughout Tasmania for people in hardship.
- The Tasmanian Council of Social Service (TasCOSS) acts as the peak body for the community services industry in Tasmania and represents the interest of its members and their service users.

Attendees:

Stacey Milbourne (Salvation Army), John Pauley (COTA) and Stephen Durney (TasCOSS).

1. Duration of the regulatory period

The attendees expressed a preference a 4-year period, which reduces the amount of work to be done by OTTER, Aurora Energy and other stakeholders.

One attendee also noted that if a 4-year period was adopted for the upcoming regulatory period, it would end in 2029, making it possible to have the timing of future retail electricity regulatory periods tie in with TasNetworks' network regulatory period. The attendee considered that this would benefit Aurora Energy, particularly around tariff restructuring, and also save stakeholders' time in preparing submissions for upcoming price determinations.

2. Aurora Energy's tariff strategy

One attendee queried when the Aurora Energy will introduce a demand-based charge, following TasNetworks change to its time-of-use tariff into a three-part tariff. The attendee considered that the Regulator must consider the benefits for customers to move to a three-part tariff or demand based tariffs.

Attendees considered that there should be a flat rate tariff made available for new customers. Attendees also considered that there should also be information presented in a basic format and that there should be a calculator tool available on Aurora Energy's website so that customers can do their own analysis regarding which tariff is the most suitable to them. It was noted that some community members might not be tech-savvy so the onus is on Aurora Energy to develop other ways to reach out to these members.

One attendee considered that there should also be some guarantees for customers to ensure that Aurora Energy or other retailers are not marketing products that make customers worse-off, because the retailers are more sophisticated than an average customer.

One attendee considered that Aurora Energy should be able to show on customers' bills if they could be better off if they were on a different tariff.

One attendee commented that when considering Aurora Energy's rebalancing of fixed and variable components across its tariffs, the impacts tend to be on vulnerable customers.

3. Calculation of the WEP component

One attendee considered that it is critical to understand how elements in the wholesale electricity model, other than Victorian future contract prices, affect the Tasmanian wholesale price.

One attendee preferred the "No Future Price" method as outlined in the methodology paper, but noted that, under this method, a lower WEP in the past does not necessarily guarantee a lower WEP in the future.

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

One attendee considered that Basslink cannot be considered as an isolated asset. Under the current arrangements, the attendee considered that Hydro Tasmanian is paying for these costs and that these costs must be built into Hydro Tasmania's prices somewhere. In particular, the attendee queried whether these costs feed into the WEP. The attendee considered that the Regulator needs to understand how much regulated customers are currently paying for Basslink.

If the AER decides to regulate Basslink, one attendee is concerned that regulated customers may end up paying twice for Basslink. That is, regulated customers could pay higher network costs and a higher WEP. The attendee considered that the Regulator should ensure that customers on regulated tariffs are not paying an unduly high electricity price if Basslink becomes regulated.

5. Calculation of the cost to serve component

One attendee considered that the customer adjustment mechanism should be removed. In the current whole-of-tariff approach, there is an allowance for Aurora Energy to keep or increase its customer base.

One attendee considered that Aurora Energy uses cloud-based software because it does not have enough computing and storage capacity on site. The attendee considered if Aurora Energy keeps its current IT capital and adds cloud-based software costs as operating costs on top of it, the Regulator needs to be cautious of over-capitalisation. The attendee considered that there should be some analysis provided by Aurora Energy to show if it is adopting the most efficient IT infrastructure.

One attendee was concerned about whether the cloud-based software is the best option regarding the security of customer information.

6. Calculation of metering costs

One attendee considered that there are two areas in relation to metering costs that will impact customers:

- the number of smart meters being rolled-out each year; and
- the period in which the metering costs will be amortised.

The attendee further commented that the metering costs now are much higher compared to the past. The attendee queried whether once all of the meters have been rolled out, the metering costs will drop significantly, or will continue to remain high. The attendee also considered that the amortisation period should be expanded and the roll out of smart meters should be slowed down, because the roll-out of smart meters is entering a period when the existing meters are more difficult to replace.

On the other hand, another attendee considered that the meter roll-out should not be slowed down because this would embed inequity and the key issue for consideration is how to allocate metering costs amongst customers.

7. Calculation of the retail margin

Attendees considered that the magnitude of Aurora Energy's retail margin is much higher compared to other energy retailers in mainland Australia.

One attendee considered that Aurora Energy has a strong brand recognition in Tasmania and there is no point giving it a different retail margin than other retailers in mainland Australia. The attendee considered that reducing the retail margin would put competitive pressure on Aurora Energy to think more about what customers are looking for.

One attendee commented that the methodology for the retail margin is not the issue - the size of the margin is the issue to address.

8. Treatment of unaccounted for energy

One attendee considered that the treatment of unaccounted for energy lies on who can control it. However, another attendee considers that, under the current regulatory framework, the unaccounted-for energy should sit with Aurora Energy so that it is more incentivised to manage this issue.

9. Other issues

One attendee mentioned that there should be 100 per cent transparency in the process of calculating Aurora Energy's approved retail tariff using TasNetworks approved network tariff.

One attendee queried the magnitude of retail energy costs in the future when there is an increased percentage of energy coming from renewable resources.