



**Tasmanian Small
Business Council**
Uniting Small Business

OTTER Review of Approach to Regulating Retail Electricity Prices 2025 - Draft Methodology Paper

Submission

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Our President, Mr. Geoff Fader and representatives of Goanna Energy met with OTTER staff on 30 July to discuss the Regulator's Draft Methodology Paper. We thank OTTER and the staff present for this opportunity.

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Abbreviations

ACCC	Australian Competition and Consumer Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
CTS	Cost to Serve
ESI	Electricity Supply Industry
kWh	kilo Watt hour
LFS	Load Following Swap
LGC	Large Generation Certificate
MWh	Mega Watt hour
NEM	National Electricity Market
NMR	Notional Maximum Revenue
NTB	Notional Tariff Base
OTTER	Office of the Tasmanian Economic Regulator
PPA	Power Purchase Agreement
RAB	Regulatory Asset base
SO	Standing Offer
Tariff	Aurora Energy's general small business network tariff
Tariff 94	Aurora Energy's time-of-use small business network tariff
The Regulator	Office of the Tasmanian Economic Regulator
TOU	time-of-use
TSBC	Tasmanian Small Business Council
TSS	Tariff Structure Statement
UFE	Unaccounted for Energy
WEC	Wholesale Electricity Cost
WEP	Wholesale Electricity Price

Executive Summary

The Office of the Tasmanian Economic Regulator (the Regulator) has published a Draft Methodology Paper for its forthcoming 2025 Regulated Retail Electricity Standing Offer (SO) Price Investigation and Determination. We welcome the opportunity afforded by the Regulator to respond to its proposed approach on behalf of Tasmanian small businesses.

Tasmanian small businesses remain overwhelmingly impacted by Standing Offer prices

Aurora Energy continues to dominate the small business electricity market in Tasmania with a 94.3 per cent market share and 83 per cent of small businesses remain on regulated retail Standing Offer (SO) tariffs. A typical small business using general Tariff 22 has seen its annual bill increase by \$282 over the three years of the Regulator's current SO Determination, which has been a significant contributor to their cost pressures and adversely impacted their energy affordability. With further increases in electricity prices likely over the period of the Regulator's next Determination, it is vital that the Regulator recognise these issues in his decisions.

Wholesale electricity costs

The Wholesale Electricity Cost (WEC) currently accounts for 32 per cent of Aurora Energy's revenue. The Wholesale Electricity Price (WEP), the key element in establishing the WEC, is determined by the Regulator as an input into the setting of annual SO prices. The TSBC is not satisfied that the way the Regulator sets the WEP is sufficiently transparent or offers enough opportunity for stakeholder involvement. For example, we have pointed to specific aspects of the Regulator's recent review of the Wholesale Contract Regulatory Instrument where involvement was limited. We do, however, welcome and support the Regulator's future intention to publish the WEP prior to setting annual SO prices and have suggested that this be accompanied by an explanation and feedback.

The Regulator has proposed three options for calculating the WEP over the next SO regulatory control period and provided helpful supporting information. After reviewing this, the TSBC favours a change to use of the No future price method, which would have delivered useful reductions in wholesale and retail SO prices if it had applied over the period analysed by the Regulator.

Treatment of Basslink costs

The Regulator is seeking comments from stakeholders on how costs associated with the possible conversion of Basslink to a regulated interconnector should be treated in determining SO prices. We note that the AER is yet to decide on Basslink's conversion application and will depend on AER decision making. However, Basslink's proposal to the AER provides some possible guidance. In that regard, we are concerned that Basslink's proposed Regulatory Asset Base (\$832 million) and its starting annual revenue (\$110 million) appear to be very high compared to the corresponding values for TasNetworks' far larger transmission system (\$1,696 million and \$170 million respectively). This alone could be suggestive of inflated Basslink charges working their way into the Regulator's SO prices.

We note the wide variation in possible annual increases in annual small business bills from a regulated Basslink of between \$15 and \$76 depending on the method used to apportion costs to Tasmania.

The Regulator should ensure that small customers pay no more than their fair share of Basslink costs consistent with his legislative requirement to do so.

Cost to serve

We support the Regulator's endeavours to minimize the Cost to Serve (CTS) and believe that there are ways in which it can be further reduced. Notwithstanding the Regulator's reservations, we believe that the number of new entrant retailers now operating in Tasmania and the number of small customers they have obtained would make the use of retailer data to help determine the efficient CTS feasible. We encourage the Regulator to examine this further. We also strongly support the application of an efficiency factor to help drive down Aurora Energy's CTS further. Given that Aurora's tariff rebalancing is resulting in a greater recovery of its fixed costs and, as other regulators do not adjust the CTS for changes in customer numbers, we believe that the Regulator's proposal to drop this adjustment appears sensible. We would support the treatment of Aurora's cloud-based system costs as capital expenditure rather than as operating expenditure as at present.

Separation of accounts

Based on the Regulator's 2022 SO Pricing Investigation Report, we had anticipated that a separation of Aurora's regulatory accounts from its competitive retail business accounts would occur as part of the 2025 Determination. We are disappointed that this is not now proposed. Whilst the Regulator's proposed cost allocation manual goes some way towards dealing with the issue, we do not believe it is an effective a means of doing so and would prefer a cleaner mechanism, like accounting separation, be introduced in this Determination. We find the Regulator's reasons for settling for a cost allocation manual, that is, arrangements in other jurisdictions and the availability of benchmarking information difficult to understand. Aurora is in a dominant market position and we believe that its business is large enough to justify accounting separation. Its absence is an impediment to good regulation, regulatory transparency, competitive neutrality and an improved environment for retail competition.

Metering costs

The costs of advanced meters are substantial, amounting to \$30.5 million, or 6.3 per cent of Aurora's NMR in 2024-25. Moreover, it is not clear that small business has yet benefited sufficiently from these meters to justify their costs. Some appear to have benefited, especially when accompanied by a move to time-of-use tariffs, but others have been challenged to derive benefits due to the nature of their operations, a lack of knowledge about new tariffs or simply not having the time to learn about the changes. Demand based network tariff T88 is also not available to Aurora's SO customers. Bills have increased for some small businesses.

The Regulator has raised the possibility of a delay in the roll-out of remaining smart meters until 2030. We are inclined not to support such a delay. Bearing in mind that 96 per cent of customers will have a smart meter by next year, any cost savings would be small, it would also delay the small businesses yet to receive a smart meter gaining access to potentially beneficial time-of-use tariffs and would perpetuate the current cross-subsidy in the recovery of metering costs.

Retail Margin

We support the use of benchmarking by the Regulator to set Aurora Energy's retail margin. The most recent ACCC data confirms that retail margins have fallen substantially in the NEM over a lengthy period and that Aurora's retail margin is well above benchmark. We suggest that the Regulator needs to review this for the 2025 Price Investigation Report.

The available information suggests that the risks Aurora Energy faces would lower its retail margin compared to retailers elsewhere in the NEM. Its price risks are lower due to the presence of

regulated wholesale prices, its volume risks are lower due to its dominant market share and other aspects of regulation such as overs and unders adjustments, allowances for changes in material circumstances of taxes, a possible allowance for unaccounted for energy and inclusion of its PPA with the Cattle Hill wind farm in its LGC costs all serve to lower its risks.

We continue to support the use of a fixed amount per customer as a retail margin in the Regulator's 2025 Determination.

Aurora Energy's Tariff Strategy

We have welcomed tariff reform aimed at removing cross-subsidies that disadvantage small business, but the slow pace of reform has been frustrating. At the same time, small business has found difficulty in responding to the stronger emphasis on fixed components of tariffs by Aurora Energy. We note the Regulator's comment that this is likely to continue under the 2025 Tariff Strategy and may consider support for narrower side constraints to limit such impacts if circumstances warrant.

Small business has had generally favourable, but somewhat mixed, experience with time-of-use tariffs. Many small businesses have found moving to Tariff 94 beneficial, but others have experienced problems such as an inability to access benefits due to inflexibility in their operations, difficulty in finding the time to develop ways to respond, a lack of information about the tariff and angst created by media reports on the bill shock experienced by some consumers. Demand based network tariff T88 is also not available to Aurora's SO customers, further limiting the benefits of tariff reform and advanced meters to small business using SOs.

Forecast customer numbers

The Regulator has proposed a change to using an average rate of change in actual customer numbers but has not demonstrated how this would be likely to impact the Notional Tariff Base (NTB) and SO prices. We agree that actual numbers would be more transparent than forecasts.

Unaccounted for energy

We do not agree with Aurora's request for an Unaccounted for Energy (UFE) allowance, given Aurora already pays these costs and that they will diminish as other retailers increase their market share. If an allowance is approved, the Regulator should ensure that Aurora minimizes the costs of UFE to its SO customers.

Pricing approvals

For the next SO Determination period, the Regulator intends to publish the WEP prior to approving SO prices and also publish Aurora's draft pricing proposal once received. We support both initiatives and would encourage the Regulator to publish reasons for the WEP it has chosen and allow for feedback on both it and the draft pricing proposal.

Length of regulatory control period

The TSBC supports the use of a three-year regulatory control period. This aligns well with the changes that are experienced in the wholesale, RET and retail markets, whilst still providing a reasonable degree of regulatory certainty. The four-year period supported by Aurora Energy would not be as responsive to market changes and, in any case, would still not align exactly with five-year network determinations.

Cattle Hill wind farm

We are concerned that SO customers have been paying more than they should as Large Generation Certificates (LGCs) under Aurora's PPA with the Cattle Hill wind farm are included in the Regulator's RET costs. This PPA appears to be the \$32.84 million contract referred to as "onerous" by the Tasmanian Audit Office in 2019 and subsequently written down in Aurora's accounts. We seek a response from the Regulator on this, a 'look back' at the impacts (in the same manner as the Regulator's price and percentage assessment of different options for calculating the WEP) and that SO customers will pay no more than they should for RET costs in the future, consistent with the Regulator's statutory obligation to ensure this.

1. Introduction

The Office of the Tasmanian Economic Regulator (the Regulator) has published a Draft Methodology Paper for its forthcoming 2025 Regulated Retail Electricity Standing Offer (SO) Price Investigation and Determination. The Draft Approach Paper sets out the methodology and approach that the Regulator intends to apply to the investigation. Given that most residential and small business customers in Tasmania remain on regulated retail SO tariffs offered solely by Aurora Energy, this price investigation will have a major bearing on what small consumers pay for their electricity over the next regulatory period commencing on 1 July 2025.

We welcome the opportunity afforded by the Regulator to respond to its proposed approach.

1.1 About the TSBC

The TSBC is an association of associations, each of which represents a specialist industry sector with significant small business participation. By bringing these sectors together, we provide small businesses with the opportunity to access information and advice across the wider small business community. We also represent small businesses as we communicate their interests and needs to government, regulators, other organisations and the public.

There are approximately 41,000 small businesses in Tasmania. They make up over 96 per cent of all businesses in Tasmania and provide more than half of the private sector employment in our state. In Q3 2022-23, there were 36,558 small businesses connected to electricity supply through TasNetworks' distribution system.¹ This highlights the importance of small business to Tasmania, its economy and its electricity industry.

1.2 The TSBC's interest in the Draft Methodology

The TSBC has a long-standing and substantial track record of involvement in Tasmanian energy issues as they affect small business, including in past Retail SO Price Investigations by the Regulator. During the Regulator's previous 2022 Retail SO Price Investigation we, jointly with TASCOS, provided submissions on both the Regulator's Draft Methodology and Draft Investigation Report.

Our interest in the Regulator's SO Price Investigations, including its Methodology, stems from the significance of regulated Retail SO prices to Tasmanian small business. For example, as of Q3 2023-24 83.2 per cent (30,390) of small businesses in Tasmania remained on regulated SO prices. This contrasts greatly to the National Electricity Market (NEM) overall where only 34 per cent of small businesses were on SOs. Further detail on this is shown in Figure 1 below. Moreover, Aurora Energy remains a dominant retailer, enjoying a 94.3 per cent market share among small businesses (SO and market contract customers).

The Regulator will be making decisions in his SO Price Investigation Report that directly impact Aurora Energy's Notional Maximum Revenue (NMR) as shown in Figure 2 below by the drawn-out slices of the pie. This accounts for 25.3 per cent of the NMR, or \$155.2 million in 2024-25. Hence, the direct involvement of the Regulator has a significant impact on what over 80 per cent of small businesses will pay for their electricity over the next regulatory period.

In addition, he has recently completed a Pricing Investigation into the Wholesale Electricity Price (WEP), which is the key input in determining Aurora Energy's Wholesale Electricity Cost (WEC). In 2024-25, this accounts for a further 32.2 per cent of the 2024-25 NMR, or \$197.7 million. The

¹ AER, Quarter 3, 2023-24 Retail Performance Data [\[link\]](#).

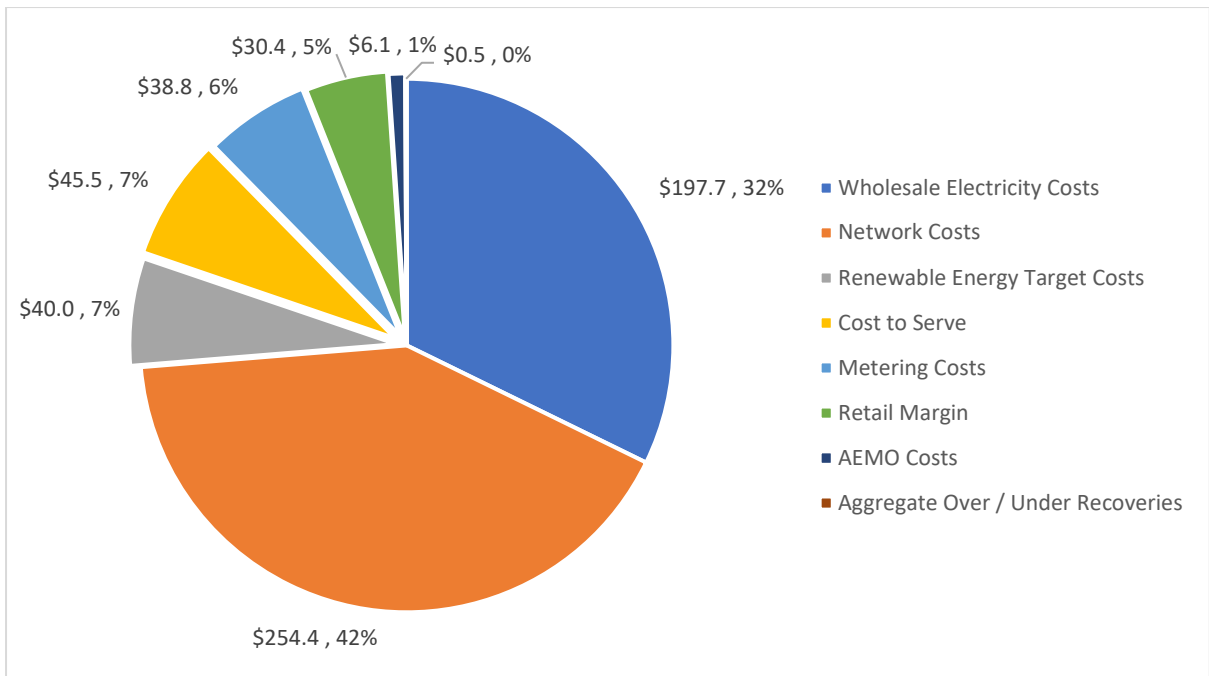
remainder of the NMR is accounted for by Network Costs of \$254.2 million (41.5 per cent) and AEMO Cost of 6.1 million (1 per cent), which are both determined outside of the Regulator’s processes.

Figure 1: Small Business Customers on Standard Retail Contracts, Q3 2023-24



Source: AER, Quarter 3, 2023-24 Retail Performance Data [\[link\]](#).

Figure 2: Aurora Energy NMR, 2024-25 (\$m & %)



Source: OTTER, Draft Methodology Paper, Table 3, p. 17 [\[Link\]](#).

Given the above, our focus in this submission has been on:

- Those parts of the Draft Methodology Paper that will impact small businesses the most;
- Those parts where the Regulator is proposing to make changes to the current methodology and is seeking feedback; and
- Those parts where the Regulator will be making decisions that directly impact on the regulated retail SO prices paid by small business.

1.3 What small business would like the Regulator to focus on

Our submission is focused on ensuring that SO prices for small business in Tasmania throughout the next regulatory period remain affordable, competitive and no higher than they need to be.

In that regard, we note the Regulator's comment in the Draft Methodology Paper that:

*The Regulator's objectives under the ESI Act in regulating Aurora Energy's standing offer prices include promoting efficiency and competition while at the same time **protecting the interests of electricity consumers**. In balancing these objectives, the Regulator is mindful of **ensuring that prices do not restrict competition but are set at a level which reflect efficient costs.**² [our emphasis]*

We believe that the Regulator's focus at this time of high electricity prices – that are likely to increase further over the next regulatory period placing further stress on Tasmanian small businesses – should be firmly on keeping prices as low as possible and recognising the price shocks that have impacted small businesses.

The impacts of decisions by the Regulator over the course of the current SO Determination are shown in Figure 3 below. As can be seen, a typical small business is now paying \$282 per annum more for electricity than they were in 2021-22, with particularly aggressive increases in the first two years. Whilst the increases in 2022-23 and 2023-24 were mainly due to wholesale price increases, in 2024-25 wholesale prices fell but were more than offset by other factors, especially higher network charges. We also note that decisions made by the Regulator at the time of his last SO Determination have left SO prices higher than we believe they need to be (this applies especially to components of the NMR such as the cost to serve (CTS) and retail margin).

1.4 Submission structure

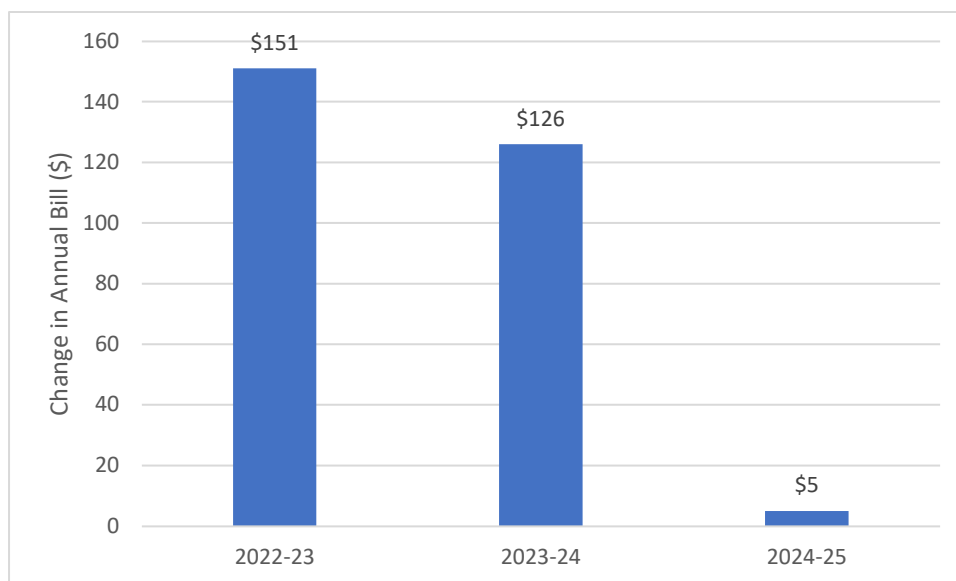
Our submission is structured as follows:

- Section 2 covers wholesale electricity costs and prices.
- In section 3 we discuss Basslink costs.
- Next we discuss the Cost to Serve (CTS).
- This is followed by Metering costs.
- In Section 6, we address retail margin issues.
- Then in Section 7 Aurora Energy's tariff strategy is discussed.
- Finally in Section 8 we respond to several other issues including forecasting customer numbers, the treatment of unaccounted for energy, the pricing approvals process and the length of the next regulatory control period.

Our recommendations and suggestions are contained in shaded boxes in each section.

² OTTER, Draft Methodology Paper, pp 13-14 [\[Link\]](#).

Figure 3: Change in Annual Small Business Standing Offer Bills (Tariff 22)



Source: OTTER, Standing Offer Pricing Approvals Media Releases, 2022-23, 2023-24 and 2024-25 [\[Link\]](#).

2 Wholesale Electricity Costs

According to Figure 3, Wholesale Electricity Costs (WEC) make up 32 per cent of Aurora Energy's Notional Maximum Revenue (NMR) in 2024-25, which makes it the second highest component after network charges (42 per cent). Clearly, the way the Regulator proposes to set the WEC over the next regulatory period is important to small consumers.

2.1 The Wholesale Electricity Price

The Wholesale Electricity Price (WEP), the key element in establishing the WEC, is determined by the Regulator as an input into the setting of annual SO prices.

This manner in which the WEP is set has been a source of some frustration to the TSBC. This stems from the fact that the WEP, despite its importance to SO prices, appears to lack transparency and is subject to limited consultation with consumers.

It seems to the TSBC that the WEP process is quite complicated and difficult for consumers to understand and follow. Whether the WEP that emerges each year is fair and reasonable for small businesses and other small consumers is difficult to gauge. Annual setting of the WEP is also accompanied by little information or explanation from the Regulator, or 'look back' reviews of its past WEP decisions. Moreover, the annual forecast of a WEP by the Regulator is more-or-less and 'each way bet' for small consumers. Actual wholesale prices throughout the year can and do nearly always diverge from the Regulator's forecast WEP, sometimes significantly so. At times this can advantage consumers, but it can also work against them. We note that small business in other NEM jurisdictions has a far greater ability to manage this risk themselves by entering into a market contract, which most of them do.³

³ The TSBC (jointly with TASCOS) raised similar issues in its submission to the Draft Approach Paper released by the Regulator as part of its 2022 SO Price Investigation [\[link\]](#).

The way in which the Regulator conducts its periodic reviews of the WEP is also at issue. For example, in its recent review of the WEP the Regulator issued a Public Notice that a Pricing Investigation would begin in September 2023. No supporting documents were issued and no formal opportunity was provided for submissions or consultation.⁴ The Regulator then released a Draft Report and associated documents on 4th April 2024 and amended versions on 17th April and sought written responses by 3rd May, a consultation period of a month. Only three submissions were received all being from market participants.⁵

The TSBC believes that the Regulator should provide more opportunity for small business to be involved in its Wholesale Price Investigation. We therefore suggest that the Regulator should review the way it conducts future investigations, particularly to allow more opportunity for consumer input.

The TSBC is seeking that the Regulator make some changes to its WEP approach particularly to allow greater opportunity for consultation with stakeholders during WEP Pricing Investigations, including with small business, and considering ways in which its approach could be made simpler and more transparent.

2.2 Annual WEP calculation options

The Regulator has set out a ten-year historical analysis of three alternative methods for calculation of the annual WEP in the Draft Methodology Paper, namely:

- May method – the current approach.
- April method – using the last Tuesday in April as the cut-off point.
- No future price method – the current method except that both the Load Following Swap (LFS) contract price and Absolute Minimum Capacity Offer volume for all weeks after the WEP calculation date are set to zero.

We welcome the helpful analysis provided by the Regulator and would favour use of the No future price method, on the basis that it tends to result in a lower WEP (4.25 per cent per annum on average) and SO prices (1.41 per cent per annum on average). Even though these outcomes are not universally the case and wholesale prices are volatile, the fact that the WEP would have been materially lower in eight of the past ten years makes a change seem beneficial to small business.

We favour the use of the No future price method in setting the WEP over the next regulatory period but with monitoring and reporting by the Regulator of its impacts. In this regard, we are pleased to see that the Regulator intends to publish the WEP each year prior to publishing SO prices, though we would propose that this be accompanied by an explanation and an opportunity to comment.

⁴ The Regulator’s website does refer to his reviewing the instrument and considering initial feedback received from stakeholders and market participants [\[link\]](#). Furthermore, the Regulator’s Draft Report (p. 15) says that:

“After commencing the investigation, the Regulator contacted market participants and other stakeholders to identify current or potential issues they have with the Instrument.” [\[link\]](#)

No further information is provided about this and the Draft Report only contains a reference to comments from Aurora Energy. The TSBC was not contacted to provide its views.

⁵ See the Regulator’s website [\[link\]](#).

3 Treatment of Basslink Costs

The Regulator is seeking comments from stakeholders on the treatment of SO costs relating to Basslink's application to the AER for conversion to a regulated interconnector and the proportion of these regulated network costs that should be passed through to regulated customers.

We provide the following comments in relation to this:

- We understand that if Basslink becomes a regulated interconnector, NMR network costs would increase in a manner determined by the AER in Basslink's transmission determination and that this would be used by the Regulator to set the NMR in future. However, it is not clear what the Regulator's position will be if there is no final AER decision forthcoming in time for his Final SO Price Investigation Report and some guidance on this would be welcome.
- Basslink has proposed an opening Regulated Asset Base (RAB) of \$831 million based on Depreciated Actual Cost (DAC).⁶ This compares to a 2025-26 opening RAB of \$1,696 million for the larger TasNetworks transmission network.⁷ This seems high even allowing for the fact that Basslink is an undersea DC link.
- Basslink has proposed a starting regulated revenue in 2025-26 of \$110 million⁸, which compares to \$170 million for the much larger TasNetworks transmission network.⁹ Again this seems high.
- We note the comments in Basslink's application that, to be consistent with the National Electricity Rules, any apportionment of revenue to Tasmanian customers would need to be consistent with TasNetworks' pricing methodology (as the Tasmanian party billed by a regulated Basslink) and that it must be based on use (though no specific use methodology is set out). Basslink examined three ways in which this could be done, namely the geographic location of assets, the energy flows across Basslink and market size, with Basslink proposing the latter. This resulted in varying impacts on small consumer bills with the annual bills for small businesses in Tasmania increasing by \$68, \$76 and \$15 under each respective method.¹⁰ Obviously, we seek to have the impacts on small business minimised and recognise that decisions on this will need to be made by the AER.
- One matter that caught the TSBC's attention is that small business bills increase by about twice as much as residential bills. A reason for this could be that it reflects higher consumption by small businesses, although this is not clear from Basslink's application.
- The AER still needs to make decisions on Basslink's application for regulated status and on its Regulatory proposal. Basslink costs and the way they are allocated to Tasmanian customers will not be known for certain until the AER makes its decisions. We anticipate that the Regulator will keep abreast of this and that its 2025 SO process will reflect any AER decisions made in time.

We note that the Regulator has interpreted that his obligations under the ESI Act is to ensure that Aurora Energy only recovers from customers paying standing offer prices the costs associated with providing retail electricity services to those customers.

⁶ Basslink Transmission Revenue Proposal – Overview, 15 September 2023, p. 29 [\[link\]](#).

⁷ AER, Final Decision – TasNetworks Transmission determination, Attachment 2 – Regulatory asset base, 2024-29, April 2024, Table 2.2, p. 6 [\[link\]](#).

⁸ Basslink Transmission Revenue Proposal – Overview, 15 September 2023, p. 27 [\[link\]](#).

⁹ AER, Final Decision – TasNetworks Transmission determination, Attachment 2 – Maximum allowed revenue, 2024-29, April 2024, Table 1.1, p. 2 [\[link\]](#).

¹⁰ Basslink Transmission Revenue Proposal, 15 September 2023, p. 43-45 [\[link\]](#).

We would expect that, whatever the outcome of the AER's decisions, the Regulator will ensure that only the costs of Basslink that relate to its use by Tasmanian SO consumers will be passed through to them.

It is not clear what the Regulator's position will be if there is no final AER decision forthcoming in time for his Final SO Price Investigation Report and some guidance on this would be welcome.

4 Cost to Serve

We support the Regulator's endeavours to minimize the Cost to Serve (CTS) and believe that there are ways in which it can be reduced. Our comments on the CTS aspects of the Draft Methodology Paper are set out below.

4.1 Use of Tasmanian retail electricity data

We would support the use of such data from retailers operating in Tasmania as an additional means of ensuring that Aurora Energy's retail costs are minimised and efficient. However, we acknowledge the Regulator's concerns that the small market share of new entrant retailers operating in Tasmania could impact the data. The Regulator has also raised an issue due to commercial confidentiality. However, with up to six or more retailers active in the residential market and small business segment, we query if this is a significant issue.

AER data indicates that the number of active retailers in Tasmania and the number of customers they have obtained could make the use of retail data feasible.¹¹

Given the further development of the Tasmanian retail market, we believe that it would be worth the Regulator investigating this issue further before finalizing the Methodology.

4.2 Use of an efficiency factor

We strongly support the continued use of an efficiency factor to help lower Aurora Energy's CTS.

We note that the Regulator intends to examine this with its in-house expertise.

4.3 Adjustment for customer numbers

The Regulator is proposing to remove the adjustment mechanism for customer numbers on the basis that Aurora Energy intends rebalancing its tariffs during the regulatory period. As a result of this rebalancing, it is expected that Aurora Energy will be able to recover more of its fixed costs than was previously the case. The Regulator also notes that other regulators do not include such a mechanism in their CTS calculations.

On the basis that Aurora's tariffs are now recovering more fixed costs from customers than before because of rebalancing and as other regulators do not allow for customer number adjustments, we believe that the Regulator's proposal appears to be sensible.

4.4 Treatment of cloud-based system costs

We note that the treatment of cloud-based software as capital expenditure rather than as an operating cost would have the desirable impact of spreading these costs over the life of the system. We also note the Regulator's comment that other regulators are also considering such a move.

¹¹ AER, Quarter 3, 2023-24 Retail Performance Data [\[Link\]](#).

We would support the treatment of cloud-based system costs for Aurora's Software as a Service (SaaS) as capital expenditure.

4.5 Cost allocation manual

In the 2022 Pricing Investigation Report, the Regulator stated it would examine the merits of requiring Aurora Energy to prepare separate regulatory accounts and/or implement activity-based costing prior to its upcoming pricing investigation. We strongly supported this in our submissions to the 2022 Pricing Investigation on the basis that it had the clear benefit of promoting greater transparency of Aurora's costs through separation of its regulated and non-regulated business. We are therefore disappointed that the Regulator has decided against this.

The Regulator argues that:

Upon considering the arrangements in other jurisdictions and the benchmarking information that will be available for the next pricing investigation, the Regulator decided not to require Aurora Energy to prepare separate regulatory accounts and/or implement activity-based costing at this stage. Instead, the Regulator required Aurora Energy to create a cost allocation manual to be introduced to its business operations prior to the next pricing investigation. The purpose of the manual is to establish a consistent basis for allocating costs between the regulated and unregulated segments of Aurora Energy's business.¹²

Whilst a cost allocation manual goes some way towards dealing with the issue, we do not believe it is an effective a means of doing so and would prefer a cleaner separation mechanism like accounting separation be introduced in this Determination. We find the Regulator's reasons for settling for a cost allocation manual, that is, the arrangements in other jurisdictions and the availability of benchmarking information difficult to understand. Aurora is in a dominant market position that differs from other jurisdictions and we believe that the Aurora Energy business is also large enough to justify accounting separation. Its absence is an impediment to regulatory decision making, transparency, competitive neutrality and an improved environment for retail competition.

We encourage the Regulator to introduce full accounting separation for Aurora's regulated business.

5 Metering Costs

The Draft Methodology Paper sets out a number of changes to the current method of recovering advanced metering costs. We comment on these below.

5.1 The costs of rolling out advanced meters

The Draft Methodology Paper shows that metering costs continue to increase as a proportion of Aurora Energy's NMR, constituting 6.3 per cent in 2024-25, compared to just three per cent in 2019-20 and that this is driven by the higher per unit cost of advanced meters. Direct metering charges have increased from \$3.5 million in 2019-20 to \$30.5 million in 2024-25. These increases are a matter of concern to the TSBC.

Whilst we appreciate that advanced meters offer additional functionality over accumulation meters and that some small business can benefit from this, it is not obvious that the benefits yet exceed the

¹² OTTER, Draft Methodology Paper, p. 33 [\[Link\]](#).

costs or that small business customers are well positioned to take advantage of any benefits. Some appear to have benefited, especially when accompanied by a move to time-of-use tariffs, but a significant number of small businesses have difficulty in shifting their consumption to take advantage of these tariffs, others find the complexity of the new tariffs difficult to deal with and understand, while some have found that the new tariffs have increased their bills. We also note that demand-based network tariff T88 is not available to Aurora's SO customers, further limiting the benefits of advanced meters to small business. We also comment on these matters in Section 7.2.

5.2 Slowing down the roll out

We note the Regulator's comments that the Regulator is not bound by the Government commitment to roll out all advanced meters by 2026, but instead must consider the objectives of promoting efficiency in electricity supply and protecting the interests of electricity consumers in line with the ESI Act. We also note that the AEMC has a longer timeframe (2030) for a national roll out of advanced meters.

The Regulator has estimated that, if the roll out of the remaining advanced meters were in line with the AEMC's 2030 target rather than the Government's commitment, it would reduce overall metering charges over the 18 months from July 2025 to December 2026 by \$0.51 million.

We note that this would spread out the metering charges associated with the remaining advanced meter installations over a longer time, reducing the annual charges. This would put some downward pressure on standing offer electricity prices over those 18 months, although the roll out will be 96 per cent complete by next year making a delay problematic and any costs savings or customer benefits small.

We are therefore inclined not to support a delay in the roll out of remaining advanced meters. Any cost savings would be small, it would delay the small businesses yet to receive an advanced meter in gaining access to potentially beneficial time-of-use tariffs and would perpetuate the current cross-subsidy in the recovery of metering costs (although this would have shrunk significantly by then).

6 Retail Margin

We comment below on certain aspects of the approach to determining Aurora's retail margin that the Regulator proposes to adopt.

6.1 Current approach

In the 2022 Determination, the Regulator used a benchmarking approach in setting the retail margin, taking account of the risks Aurora Energy faced in delivering retail services under standard retail contracts. This also considered the risks that Aurora Energy may face in Tasmania compared with retailers operating in interstate markets, including energy price risk and volume-related wholesale electricity price risk.

In our submissions to the previous Determination, we supported the use of benchmarking to help set retail margins and continue to support that method. We believe that, properly applied, it is consistent with the Regulator's obligation to keep Aurora's costs to a minimum, thus keeping retail SO prices lower. We were, however, disappointed that the retail margin benchmark set by the Regulator was significantly higher than benchmarks suggested it should be and higher than we had recommended.

We therefore encourage the Regulator to again examine the available benchmarks in setting a revised retail margin as part of its 2025 Retail SO Price Investigation. In this regard, we note for example, that the most recent ACCC data on retail margins in the NEM shows a trend of continuing decline over a lengthy period for both small business and residential customers, although there is variation across different jurisdictions and customer segments.¹³ There is a consistent impression, however, that Aurora's existing retail margin is too high.

We strongly support the use of benchmarking to help set retail margins and encourage the Regulator to examine the latest available benchmarks in setting a revised retail margin for its 2025 Retail SO Price Investigation.

6.2 Aurora specific risks

We discussed in some detail the matter of the impact of the specific risks faced by Aurora in relation to its retail margin in our submission on the Regulator's 2022 SO Electricity Price Investigation Draft Report.¹⁴ In summary, the points we made (updated as necessary), which we consider are still relevant, were:

- Regarding price risk, there is extensive regulation of the WEP in Tasmania and the method used is well known to Aurora and very stable, such that they can adopt strategies to manage this and reduce risks. Retailers elsewhere in the NEM face much higher price risk.
- Aurora also faces lower volume risk due to its dominant share of the small customer market (95 per cent), which has fallen only slightly from the 2022 Determination (97 per cent). Although the number of retailers operating in the small customer segment has increased, their numbers remain low (around 6) and all are Tier 2 retailers. Aurora faces no competition from the 'Big Three'.
- Several other risks are worth mentioning such as, an ability to recover overs/unders, regulatory approval of material and tax changes within regulatory periods and inclusion of the costs of Aurora's long-term PPA with the Cattle Hill wind farm in its renewable energy obligation costs.

We also note that, if the Regulator approves Aurora's request to include an allowance for Unaccounted for Energy (UFE) in its NMR, this will further reduce its risks and retail margin. We would expect the Regulator to reflect this in a lower retail margin in the 2025 Determination.

All the above suggest to us that Aurora's retail margin remains substantially above where it should be based on any reasonable risk adjusted benchmark.

The Regulator should consider the low price, volume and regulatory risk faced by Aurora Energy to support lowering the retail margin to apply for the 2025 Determination.

6.3 Retail margin as a percentage of costs or as a fixed dollar amount

The Regulator currently applies the retail margin as a fixed dollar amount per customer rather than as a percentage of Aurora's costs. We note that this keeps the amount paid per customer constant, avoiding the margin being impacted by changes in costs. It seems intuitive that the retail margin would not vary with costs. It also improves the transparency of the costs associated with the retail margin.

¹³ ACCC, Inquiry into the National Electricity Market, December 2023, pp 33-37 [\[link\]](#).

¹⁴ TSBC and TASCOS, Submission on 2022 SO Electricity Price Investigation Draft Report, March 2022, pp 22-23 [\[link\]](#).

We continue to support the use of a fixed amount per customer in the Regulator's next Determination.

7 Tariff Strategy

We discuss below aspects of Aurora Energy's likely tariff strategy for the 2025 Determination.

7.1 Tariff rebalancing

The small business sector has been subject to a range of unwelcome tariff cross-subsidies in the past. TSBC has therefore generally welcomed the gradual removal of these, although we have been frustrated by the slow pace at which this has occurred and an initial slowness on the part of Aurora to begin removing the cross-subsidies.

However, we have been less welcoming of the approach of increasing the fixed component of tariffs at the expense of variable rates. Whilst we appreciate the reasons for this (e.g., improved network utilisation and investment), it can be difficult for small business to respond to fixed components than variable ones, making management of energy use in response to rebalancing more difficult.

We note the comment in the Draft Methodology Paper that:

"It is expected that Aurora Energy's Tariff Strategy for the next regulatory period will contain further rebalancing of its tariffs, with the possibility of higher side constraints. Aurora Energy has stated that it will consult on its proposed Tariff Strategy during August 2024 prior to submitting it to the Regulator for review and approval."¹⁵

To the extent that this results in further removal of cross-subsidies that disadvantage small business we welcome it, but harbour concerns that it could add to small business electricity costs if applied in a way that makes it difficult for small businesses to respond to altered price signals.

If tariff rebalancing adds to small business electricity costs, we may support measures such as the use of side constraints to limit or slow these impacts on small business. However, we would first need to see how Aurora's pricing strategy develops.

We welcome the consultation that both Aurora and the Regulator propose to undertake on the Tariff Strategy before it is approved.

7.2 Impacts of new tariffs

The TSBC have been monitoring the impacts of recently introduced tariffs, especially Tariff 94, by TasNetworks and Aurora on small business. Our consultants on this submission, Goanna Energy and their subsidiary Tas Energy Brokers, have also provided feedback on the impacts of these tariffs on their business clients. We draw the following points to the Regulator's attention:

- The new tariffs have generally had a beneficial impact on small business. Tas Energy Brokers report that only 3 per cent of their small business clients were better off on the flat rate Tariff 22.

¹⁵ OTTER, Draft Methodology Paper, p. 55 [\[Link\]](#).

- However, some small businesses have found it difficult to access the benefits that time-of-use tariffs offer and have seen their electricity charges increase. For example, businesses that cannot easily change their use patterns due to inflexibility in their operations.
- Small businesses often find it difficult to adjust to tariff changes because they need to spend time actively managing them and time is a scarce commodity for all small businesses.
- Small businesses have expressed frustration that there has been too little useful information provided to them about how the new tariffs work and how they can best manage them, leaving them to their own devices with the result that the intent of the tariffs may be lost.
- Small businesses are anxious about media reports of consumers who have experienced extreme impacts from the new tariffs (e.g., massive bill shock), which is giving tariff reform a bad name and creating scepticism about the new tariffs.
- Demand based network tariff T88 is not available to Aurora’s SO customers, further limiting the benefits of advanced meters to small business.

TSBC would encourage Aurora Energy and the Regulator to consider what could be done to help alleviate the kinds of problems with tariff rebalancing mentioned above, including improving information to small business and introducing a tariff based on network tariff T88.

8 Other Issues

In this section, we comment on several other matters that will form part of the Regulator’s approach to the 2025 Price Investigation that were raised in the Draft Methodology Paper.

8.1 Forecast customer numbers

We note the comment that the Regulator considers that forecast customer numbers could be more transparent. For example, the forecast of customer numbers during the year could be based on the average rate of growth or decline in actual customer numbers from the previous five years.

Currently, the forecast of customer numbers is the mid-point of actual customer numbers as of 31 March prior to the start of each year and a forecast of customer numbers as of 31 March during the forecast year. We agree with the Regulator that this is a rather opaque approach.

Unfortunately, the Regulator has not demonstrated how the proposed change to using an average rate of change in actual customer numbers would be likely to impact the Notional Tariff Base (NTB), which makes commenting more difficult. The TSBC would be concerned if the impact of such a change were to result in price increases.

We agree that actual numbers would be more transparent but would encourage the Regulator to demonstrate how the proposed change to using an average rate of change in actual customer numbers would be likely to impact the Notional Tariff Base (NTB).

8.2 Unaccounted for Energy

Aurora Energy has requested that the Regulator consider the inclusion of Unaccounted for Energy (UFE) as a cost in determining its standing offer prices.

We have a number of concerns with its request:

- Its inclusion in the NMR would involve upside and downside risks for small customer prices and it is not clear where the balance lies, noting that customers have almost no ability to manage these risks.
- Providing Aurora with an adjustment allowance for UFE, effectively a cost pass through, places little incentive on Aurora to manage UFE to minimize its costs. Ideally, Aurora Energy should have a regulatory incentive to minimise UFE risks.
- We note the Regulator’s comment that “UFE is not a new cost to Aurora, rather it is a cost that is now measurable” and that “under the previous settlement framework, Aurora Energy bore the full cost of UFE and received no additional allowance for these costs.”¹⁶ It is not clear to us why Aurora should now receive an allowance? The fact that it is now measurable is neither here nor there as Aurora has presumably internalized the cost in the past and managed it that way.
- We also note the Regulator’s comment that under AEMO’s new global settlement framework, all retailers operating in the Tasmanian electricity market bear these costs which means that Aurora Energy’s share of UFE has been reduced and will likely continue to reduce over time.” It seems to us that this adds weight to arguments against providing an allowance.
- With advanced meters largely rolled out in Tasmania and a Government commitment to complete this by 2026, responsibility for validating metering data and identifying errors is increasingly shifting from TasNetworks to Metering Coordinators. Aurora Energy is therefore already being incentivised to manage risks and reduce UFE over time. Providing it with a cost allowance would work against this.
- As we have already mentioned under Section 0, Aurora is already effectively being compensated for UFE risks through its retail margin and any decision by the Regulator to approve an allowance should be recognised in a lower retail margin.

Given the above we do not favour the Regulator agreeing to Aurora’s request for a UFE allowance, but if one is approved, it should ensure that Aurora minimizes the costs of UFE to its SO customers.

8.3 Pricing approvals

For the next SO Determination period, the Regulator intends to publish the WEP prior to approving SO prices and also publish Aurora’s draft pricing proposal once received. We support both proposals and would encourage the Regulator to:

- Provide for both an explanatory statement and stakeholder feedback on the WEP; and
- Ensure that there is an opportunity for stakeholders to comment on the pricing proposal.

We support the Regulator’s proposals to publish the WEP and Aurora’s draft pricing proposal prior to approving annual SO prices, noting our suggestions above on how this should be done.

8.4 Length of Regulatory Control Period

We support continuing with the current three-year regulatory control period.

Whilst Determinations by the Regulator cost money and are time consuming, small business values the involvement of an independent regulator in this process. Moreover, the environment in which regulated SO prices are set is continually evolving due to factors such as changes in the wholesale RET and retail markets and tariff reform. A three-year period allows for regulated SO prices to

¹⁶ OTTER, Draft Methodology Paper, p. 53 [\[Link\]](#).

reflect these changes in a timelier way whilst still balancing the need for a degree of certainty about regulation. A four-year period is less able to do this. At a practical level, three years also seems to be working well enough.

It might be argued that network charges are subject to five-year determinations and that four-year SO determinations would better align with this. However, we do not see the need for such an alignment. Network charges change from year to year and are subject to maximum revenue allowances that are known in advance. They are also more-or-less postage stamped by the Regulator. In any case, four years would also still not align precisely with the AER's five-year network Determinations.

8.5 Cattle Hill Wind Farm

TSBC has concerns that the inclusion of Large Generation Certificates (LGCs) purchased by Aurora Energy under its PPA with the Cattle Hill wind farm have inflated the Regulator's allowance for Renewable Energy Target (RET) costs, with this resulting in SO customers paying more for their electricity than they need to and contrary to the Regulator's statutory obligations. The Cattle Hill PPA is commercial-in-confidence, but we understand that the Regulator has access to it.

We make the following points in relation to this:

- It appears that LGC prices under Aurora's Cattle Hill PPA have been well above LGC market prices so that the RET component of Aurora's NMR has been inflated by this and this has flowed through to SO tariffs.
- We note that the Tasmanian Audit Office in 2019 referred to Aurora's financial performance for 2018-19 being "adversely impacted by the recognition of a provision for an onerous contract of \$32.84m relating to a forward energy related contract to meet its obligations in the National Electricity Market."¹⁷ It seems highly unlikely that this was anything other than the Cattle Hill contract.
- Aurora then wrote off the costs of an "onerous contract" valued at \$32.84 million in its 2019 Annual Report, presumably its Cattle Hill wind farm PPA.¹⁸

In our view it would be unconscionable if SO customers were having the costs of an "onerous contract" passed on to them through the inclusion of inflated Cattle Hill wind farm LGC prices passed on to them through the Regulator's inclusion of Cattle Hill wind farm cost in Aurora's NMR. In our view, the costs of an "onerous contract" should lie fully with Aurora and its shareholder, not its SO customers. In a competitive market, Aurora would not be able to pass on such costs and would have to absorb them.

We seek a response from the Regulator as to whether the inclusion of Cattle Hill wind farm LGC costs have increased Aurora's NMR and SO prices (and by how much) contrary to the Regulator's statutory obligations that SO customers pay no more than they should? A 'look back' like that provided in the Draft Methodology Paper on the WEP would achieve this.

We also seek from the Regulator an approach to the setting of RET costs in his 2025 Determination that ensures that SO customers will no longer pay for inflated Cattle Hill wind farm LGCs.

¹⁷ Tasmanian Audit Office, Audit of State entities and audited subsidiaries of State entities 2018-19, p. 43 [\[Link\]](#).

¹⁸ Aurora Energy, Annual Report, 2019, p. 54 [\[Link\]](#).