At a glance

Review of the approach to regulating retail electricity prices - final methodology paper

What are standing offer contracts and what are Aurora Energy's obligations?

Tasmanian customers may receive their electricity supply under either a standard retail (standing offer) contract or a market retail contract. Aurora Energy is the only retailer operating in Tasmania required to offer standing offer contracts.

What is the Tasmanian Economic Regulator's role in setting electricity prices?

The Regulator determines the prices that Aurora Energy can charge customers who pay standing offer (regulated) prices for electricity (i.e. residential customers and small business customers who use less than 150 MWh of electricity in a year).

How does the Regulator determine regulated electricity prices?

Periodically, the Regulator makes a price determination which sets out how regulated prices will be determined for the next regulatory period.

Before making a new price determination, the Regulator must conduct a pricing investigation. During the investigation, the Regulator requests information from Aurora Energy, consults with stakeholders, compares Aurora Energy's costs to other retailers and, where necessary, seeks advice from external consultants.

Following the completion of a price investigation and the making of the price determination, Aurora Energy is required to submit an annual pricing proposal setting out the services it intends providing and the prices it intends on charging for those services.

After confirming that the proposed prices comply with the requirements set out in the price determination and investigation final report, the Regulator approves the prices that are to apply for the coming financial year.

Regulated prices are set at a level that results in Aurora Energy recovering the costs of supplying energy to regulated customers. These costs include:

- wholesale electricity costs;
- network costs;
- retail costs (cost to serve);
- renewable energy target (RET) costs;

- metering costs; and
- other costs, such as Australia Energy Market Operator (AEMO) costs.

The Regulator also sets a retail margin to compensate Aurora Energy for the risks it faces providing retail services.

In examining these costs during a pricing investigation, the Regulator's objective is to ensure regulated customers do not pay more than necessary for the services they receive.

Why review the approach to setting regulated prices before a pricing investigation?

The purpose of this review was to examine the approaches used in previous investigations, arrangements in other jurisdictions and identify and assess the approaches the Regulator could adopt in assessing Aurora Energy's costs and determining prices for the next regulatory period.

The objective of the review was therefore to make sure the Regulator's approach was fit for purpose and remained appropriate in the context of the Tasmanian retail electricity market.

The final methodology paper sets out the Regulator's decisions and highlights issues the Regulator will further consider during the pricing investigation.

The Regulator's decisions:

Length of the regulatory period

A regulatory period is a specified time period during which the Regulator's price determination applies. The Regulator sought feedback on whether the next regulatory period should be three or four years in duration.

Regulator's decision:

Set the next regulatory period at three years.

Cost to serve (CTS)

CTS represents the operating costs Aurora Energy incurs providing retail services to regulated customers. The Regulator sought feedback on a number of issues in relation to this cost component.

Regulator's decisions:

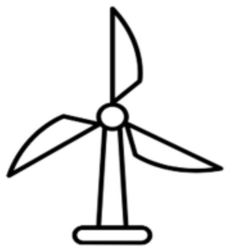
Take a similar approach in calculating CTS as used for the 2022 Determination, including applying an efficiency factor.

Remove the customer number adjustment mechanism. Under this mechanism, Aurora Energy's per customer CTS increases if customer numbers decline (as there would be relatively fewer customers to recover fixed costs from) and decreases if customer numbers increase (as there would be relatively more customers to recover fixed costs from).

Further consider the treatment of cloud-based software costs during the pricing investigation.

Require Aurora Energy to submit its cost allocation manual prior to the commencement of the pricing investigation.

Renewable Energy Target (RET) costs



RET costs are those associated with Aurora Energy's compliance with the Australian Government's RET scheme. In its Draft Methodology Paper, the Regulator proposed continuing to use the 2022 Determination approach when forecasting RET costs. Under this approach, Aurora Energy's commitments under the Cattle Hill Power Purchase Agreement (PPA) were taken into account when calculating the cost allowance for large-scale generation certificates (LGCs). A PPA is a contract most commonly between a renewable energy generator and an electricity retailer that allows the retailer to purchase LGCs at predetermined prices over an extended period of time (typically around 10 years). A PPA assists the retailer to manage risks relating to supply issues and price volatility in the LGC market.

Regulator's decision:

Continue to use the current approach for forecasting RET costs.

Metering costs

Metering costs are the costs associated with the installation, maintenance and reading of meters. The Regulator sought feedback on whether to slow down the rollout rate of the remaining advanced meters, as well as revising the method to calculate the proportion of regulated customers on various tariffs.

Regulator's decisions:

Continue to use the current method to calculate metering costs including the current rollout of advanced metres.

Revise the method for calculating the proportion of regulated customers on various tariffs.

Aurora Energy's Tariff Strategy

Aurora Energy's Tariff Strategy sets out the changes it intends making to its tariffs during the next regulatory period.

Regulator's decision:

Require Aurora Energy to submit a draft Tariff Strategy.

Issues requiring further consideration

Calculation of the wholesale electricity price (WEP)

The WEP is a key component of Aurora Energy's wholesale electricity costs and is calculated by the Regulator. In its Draft Methodology Paper, the Regulator analysed the timing of the WEP calculation and sought feedback on a number of alternative approaches.

Regulator's decisions:

Maintain the current timing for the calculation of the WEP.

Consult further with stakeholders, including other electricity retailers, during the pricing investigation on the 'no future price' method (this method is similar to the current method for calculating the WEP except that it is based only on historical prices and contains no forecasts of future prices).

Treatment of costs relating to Basslink

Network costs are regulated by the Australian Energy Regulator (AER). In its Draft Methodology Paper, the Regulator sought comments from stakeholders on the treatment of costs relating to Basslink in the event that it becomes a regulated service.

Regulator's decisions:

Continue with the current approach to forecasting network costs.

As the AER's assessment process is ongoing, more information is needed before the Regulator can make a decision on the treatment of these costs should Basslink become a regulated service.

Retail margin

In its Draft Methodology Paper, the Regulator proposed continuing to apply a benchmarking approach to setting a retail margin, but also sought comments on whether the margin should be calculated on a dollar amount per customer, or as a combination of a fixed amount plus a percentage of costs.

Regulator's decisions:

Continue to apply a benchmarking approach to setting the retail margin.

Further consider the method for calculating the retail margin during the pricing investigation.

Treatment of unaccounted for energy (UFE)

UFE is the difference between metered energy entering a local area and the metered energy consumed within that local area. The reasons for these differences include energy theft, inaccurate or faulty meters, estimation errors associated with unmetered devices and errors in distribution loss factors. Since 2022, AEMO has billed electricity retailers separately for UFE.

Regulator's decision:

Further consider the treatment of UFE during the pricing investigation.

Next steps

The Regulator will release a draft investigation report and a draft determination for public consultation between late-February 2025 and late-March 2025. The Regulator will also consult on Aurora Energy's draft Tariff Strategy.