REGULATED TARIFF STRATEGY

FOR THE REGULATORY PERIOD
FROM 1 JULY 2025 TO 30 JUNE 2028

June 2025

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EXECUTIVE SUMMARY

The 2025 Price-Regulated Retail Service Price Determination (2025 Determination) sets out how regulated retail electricity prices are to be determined for each financial year of the three-year regulatory period from 1 July 2025. These prices are presented to customers through the Regulator approved Standing Offer Tariff Schedule (Tariff Schedule).

As part of the 2025 Determination, the Regulator reviews and approves an Aurora Energy Regulated Tariff Strategy' that outlines how tariffs will be communicated and managed over the life of the 2025 Determination. This includes adding and removing tariffs, terms and conditions, cost reflectivity and rebalancing.

Underpinning the development of the Regulated Tariff Strategy are a range of contextual factors including:

- Customer tariff choice expectations have evolved alongside a growth in supporting products such as advanced meters, digital channels, distributed generation and battery systems.

- Network tariffs, which function as the key determinant of whether retail tariffs are cost reflective, have consistently progressed in a contradictory movement to what has been allowed for under retail regulation price structures, introducing significant misalignment and risk to retail tariff structures.

- Rule makers and rule enforcers continue to develop their regulatory frameworks on a year-to-year basis with little pause for consideration of the effects from regulatory change nor with any regard for alignment in their overall tariff policy objectives.

- Competition has progressed with more retailers in Tasmania offering a wider range of tariffs, as evidenced by the Australian Energy Regulator's (AER) 'Energymadeeasy' price comparison website.

In addressing the above factors and designing its Regulated Tariff Strategy for the 2025 Determination period, Aurora Energy is mindful of cost-of-living impacts that have persisted since the outbreak of the COVID-19 pandemic and continue to present challenges to vulnerable customers.

As opposed to other jurisdictions where regulated tariffs are used by 17 per cent of the small customer base, the large majority of Tasmanian small electricity customers utilise the regulated Tariff Schedule.

Noting the above factors and high utilisation of regulated pricing, the Regulated Tariff Schedule is demonstrably important to the outcomes of customer bills and Aurora Energy's ongoing viability.

As such, any amendment to regulated tariff structures or their underpinning cost inputs can have major ramifications for Aurora Energy and its customers. To this end, cost reflective tariffs are the critical factor in the provision of a fair and equitable Regulated Tariff Strategy. Tariffs that have historical and future misalignment not only impact Aurora Energy's sustainability but also remove the potential for network price signals to reduce the impact on consumer behaviour.

Further, the diversity of product choices, environmental factors and growth of tariff outcomes is requiring Aurora Energy to reconsider how it engages with customers on their choices and tariff structures. Based on this, Aurora Energy contends that the Tariff Schedule, whilst important, is no longer the sole source of tariff choice and its purpose is more in line with that of other regulatory constructs, as a safety net or reference price mechanism. Conversely, Aurora Energy is anticipating a small but material growth in market offers outside of the Tariff Schedule throughout the 2025 Determination.

To reflect these factors and circumstances, the following three principles are proposed as the Regulated Tariff Strategy to be applied within the 2025 Determination period. Within these principles are a range of steps to ensure the Regulated Tariff Strategy aligns with existing market and regulatory conditions, supports customers and ensures ongoing sustainability of Aurora Energy. This is outlined in Figure 1 below:

Figure 1 - Regulated Tariff Strategy

Simplicity	• Make energy easy for Tasmanians. • Provide the ability to make minor changes to tariff names, terms and conditions, and reflect relevant regulatory changes.
Fair and equitable pricing	• When proposing to make tariffs obsolete and/or abolished, Aurora Energy will seek the Regulator's approval. • Develop and commit to cost reflective tariffs including alignment with network tariff movements. • With the exception of 'very low' consumption profile Tariff 22 customers, apply a tariff rebalancing side constraint that no typical customer bill outcome (as defined by the Regulator's Typical Customer Methodology) is more than three per cent higher than it otherwise would be under a uniform price change. • For 'very low' consumption profile Tariff 22 customers (as defined by the Regulator's Typical Customer Methodology), apply a tariff rebalancing side constraint that the bill outcome is no more than five per cent higher than it otherwise would be under a uniform price change. • Conduct a review of the Tariff 22 customer segment with recommendations to be submitted to the Regulator by 28 November 2025.

Standing offer safety net	• Only add a new tariff to the Regulated Tariff Schedule if it:
	  • is simple and understandable;
	  • limits the potential for negative customer outcomes;
	  • is cost reflective; and,
	  • can be accessed by a broad range of customers.
	• Develop and apply a new regulated flat rate tariff to commence from 1 July 2026.
	• No other new tariffs are proposed although, Aurora Energy retains flexibility to introduce new tariffs, if required.

For clarity, it is Aurora Energy's proposal that the above Tariff Strategy apply in all three periods of the 2025 Determination.

The 2025 Regulated Tariff Strategy proposed above remains predominantly consistent with the strategies approved by the Regulator in the 2016 and 2022 Retail Price Determinations.

Aurora Energy has sought stakeholder feedback on the application of its tariffs throughout 2024 and on the Draft Regulated Tariff Strategy in the lead up to the Regulator's Final Determination released on 9 May 2025.

1 INTRODUCTION

As part of the 2025 Determination price investigation process, a Regulated Tariff Strategy is required to be submitted and subsequently approved by the Regulator as part of the finalisation of the 2025 Determination.

The Regulated Tariff Strategy outlines Aurora Energy's plans for managing tariffs over the 2025 Determination period, including minor amendments to terms and conditions, cost reflectivity, rebalancing and, where necessary, introducing new tariffs.

Aurora Energy has prepared this Regulated Tariff Strategy so that it aligns with its submissions and engagements with the Regulator throughout the price investigation for the 2025 Determination. The Preliminary Submission addresses the build-up of cost components required to calculate retail prices and is separate from this submission.

This final version of the Regulated Tariff Strategy has been amended to reflect the findings of the Regulator outlined in the Final Report for the 2025 Determination.

For clarity, the Regulated Tariff Strategy is distinct from the Regulated Tariff Schedule which is the document approved by the Regulator that contains the price and terms and conditions of each regulated tariff. This is available on the Regulator's website under the pricing approvals section or on the Aurora Energy website.

This paper outlines the factors underpinning the Regulated Tariff Strategy including the current market and regulatory environment. The principles and steps for how the Regulated Tariff Strategy will be implemented across the 2025 Determination are then outlined in detail.

2 MARKET AND REGULATORY ENVIRONMENT

2.1 NETWORK TARIFF REFORM

It is clear from recent network regulatory determinations that distribution businesses are subject to distinct network tariff reform objectives and expectations from the AER, their principle regulatory oversight body.

At the heart of this reform is the goal for "distributors to gradually make their tariffs more accurately reflect the costs of serving their customers (i.e. cost reflective)." which is set down in the National Electricity Rules[1] as per a November 2014 rule change from the Australian Energy Market Commission.[2]

The AER perceives there are clear gains to be made with more efficient use of distribution networks that in turn can translate to lower network costs for customers. This is a core focus in TasNetworks' Tariff Structure Statement (TasNetworks TSS) proposed under its 2024-2029 regulatory determination and approved by the AER.[3]

The impacts of network tariff reform can be highly significant as network costs represent 42 per cent of the retail bill and their structures largely underpin retail tariff structures. Aurora Energy also notes that there is some debate in other jurisdictions as to the validity of network tariff reform and the inexorable push towards cost reflectivity.[4] Regardless of its validity, the outcomes of network tariff reform are real and trigger actions amongst down-stream participants.

Critically, the TasNetworks TSS has driven the most significant reforms to retail tariffs in over twenty years by:

- making obsolete (grandfathering) flat rate network tariffs currently utilised by the majority of Tasmanians;
- a proposal to align network tariffs TAS31 and TAS41 over five years; and
- a range of other changes relating to tariff assignment such as for electric vehicle customers.

These reforms impact all retailers actively competing in the Tasmanian jurisdiction, not only Aurora Energy. Hence, a significant driver and source of change within the Tariff Schedule is from the network level. While retailers have 'choice' in how they respond to network tariff reform, any decision to not to reflect TasNetworks changes can create significant price and regulatory risks for Aurora Energy (as discussed further in Section 2.2).

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https://www.aer.gov.au/about/strategic-initiatives/network-tariff-reform
2 https://www.aemc.gov.au/rule-changes/distribution-network-pricing-arrangements
3 TasNeworks Revised Proposal Tariff Structure Statement, November 2023, p.17,26
4 https://energyconsumersaustralia.com.au/publications/analysis-cost-reflective-network-tariffs-arent-cost-reflective

In response to network tariff reform, Aurora Energy has been able to address some of these changes, either in the last two periods of the 2022 Determination or will be able to do so as part of this Regulated Tariff Strategy proposal.

Most prominently, Aurora Energy grandfathered its flat rate retail tariffs from 1 July 2024. Only a small percentage of Aurora Energy customers are set to be impacted by this decision noting existing flat rate customers are not affected provided they remain on the grandfathered flat rate tariff. This decision was taken for a range of reasons including managing the potential risk exposure from tariff misalignment, ensuring clarity around tariff connection services and supporting the potential benefits from altered network price signals.

To mitigate this circumstance, Aurora Energy created two new flat rate market retail products to offer in place of the grandfathered products. Aurora Energy was able to take this position given internal analysis that has shown that the vast majority of Aurora Energy customers are better off on Time of Use (ToU) products based on their current usage and before any behavioural change is enacted. This fact is further supported by the Regulator's own price comparison reports that demonstrate that both Tariff 93 Residential Time of Use and Tariff 94 Business Time of use are the cheapest regulated ToU products in Australia.

There is both risk and billing complexity for Aurora Energy to manage in providing the new flat rate market products. These are targeted offers to customers to support those who are not set to benefit from the cheaper rates and/or structures of the regulated ToU products. Hence, the flat rate products are not 'generally available' offers, as defined by the AER in its *AER Retail Pricing Information Guidelines 2018*.[5] Rather, they are 'restricted offers' which ensures Aurora Energy can achieve dual outcomes of providing customers with choice while managing the risks of misalignment of pricing a flat rate product that is underpinned by a network ToU tariff.

Given their restricted status and misalignment with underpinning network tariffs, the flat rate market offers exist outside of the Regulated Tariff Strategy. Only a limited number of customers are expected to be affected by the grandfathering of flat rate tariffs until they either build a new home or move to another property with a time of use tariff and it is Aurora Energy's expectation that some customers may stay on the grandfathering flat rate tariffs for many years or even decades.

However, Aurora Energy notes the Regulator's requirement to introduce a regulated flat rate tariff and is addressed in section 7.1.3 of this Regulated Tariff Strategy.[6]

2.2 REGULATORY FRAMEWORKS EVOLVING

At the time of preparing this Regulated Tariff Strategy, there are market trends and developments underway, all with varying degrees of potential to impact the setting and communication of retail tariffs with much of this related to network tariff reforms.

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[5] Retail Pricing Information Guidelines, Australian Energy Regulator, p.5
[6] 2025 Regulated Retail Electricity Pricing Investigation – Final Report, p.13-14

Aurora Energy acknowledges that in some mainland jurisdictions, there have been actions taken by retailers that have not been in the best interests of customers. A number of cases have occurred where retailers have moved customers onto complex time of use tariff structures (after an underpinning network tariff was altered) without consent from the customer to that tariff change. For the main part, this appears to be most impactful when customers are moved from non-complex tariffs onto complex tariffs, such as demand based ToU tariffs. Customers without clear and informed understanding of these complex tariff structures have experienced high bill impacts.

For utmost clarity, Aurora Energy will never change a customer within an existing premise onto an alternative tariff without their consent.

The concern of assignment of new retail tariffs to customers without consent, driven by changes to underlying network tariffs from customers, has triggered amendment to the AEMC Accelerating smart meter deployment rule change process with two new additional safeguards:

1. Customers must give their explicit informed consent for any changes to retail tariffs, for three years after a smart meter deployment.
2. Designated retailers would be required to offer all customers for which they are the designated retailer a standing offer flat tariff offer. This would be implemented by jurisdictions.[7]

Aurora Energy considers that it is currently meeting the objective of the rule change in both its commitment to not move a customer onto a new tariff without consent and, its offering of flat rate market offers to provide customers with choice in response to the grandfathering of flat rate tariffs. As noted in the Regulator's *2025 Regulated Retail Electricity Pricing Investigation – Draft Report* (Draft Determination), the AEMC rule change has been a large factor in the decision by the Regulator to request Aurora Energy provide a regulated flat rate tariff.[8]

For clarity, the new flat rate market offers are not required where customers retain their grandfathered flat rate tariffs. The new market offers are only required to be considered by customers when building a new home or business site or moving into a premise that already has a time of use tariff installed.

[7] Australian Energy Market Commission, National Electricity Amendment (Accelerating Smart Meter Deployment) Rule, Rule Determination, p.7
[8] 2025 Regulated Retail Electricity Pricing Investigation – Final Report p.13-14

2.3 PROGRESSION OF COMPETITION

As highlighted in its Preliminary Submission, since the commencement of full retail competition in Tasmania in 2014, the market has actively developed and there are now seven active retailers providing market offers to both residential and small business customers.[9]

When it comes to tariff setting by other retailers in the small customer segment, the overwhelming approach by competing retailers is to discount off or refer to the Regulated Tariff Schedule as the basis for their tariffs. These prices are not regulated given Aurora Energy is the only Regulated Offer Retailer in Tasmania.

This reference and informal dependency on the Tariff Schedule in effect positions it as the default rate schedule for Tasmania. This creates a range of issues for the Regulator to consider which are further discussed in sections 5 and 7.

2.4 DIVERSTIY OF CHOICE AND PRODUCTS PROGRESSING

Surrounding the future of the Regulated Tariff Strategy is the ongoing transition of the Australian energy sector to one that is based on clean, renewable energy. As part of this transition, there is a growing movement towards behind-the-meter products and services that are otherwise known as Consumer Energy Resources (CER).

There is a fast rate of change in CER products and services that may impact customer choices and needs in tariff structures. Solar systems, battery storage and community-based solutions such as peer-to-peer power sharing arrangements are all areas that may evolve in both their regulatory frameworks and market presence to a point that drives a need to adjust the Tariff Schedule.

This may also be so for products that utilise two-way flows of energy such as distributed generation and electric vehicles. Noting the format and outcome of the progression of CER is relatively undefined, the impacts on the Tariff Schedule is challenging to predict at this time.

2.5 COST OF LIVING IMPACTS

Electricity is an essential service and a critical everyday need in people's lives. Since the pandemic, cost of living pressures remain an enduring challenge. Whether it be energy, water, food, telephone or insurance, all household costs have risen over last few years.

Support from the Tasmanian and Federal governments in energy bill relief has been most welcome, and alongside established concessions, have helped alleviate some of the pressure felt by people when managing their expenses.

However, there is an inevitable cost associated with electricity that ensures it can be an impact on household expenses. Tariff elements whether cost, terms or structure can in different ways

[9] Australian Energy Regulator, Energy Made Easy Website, www.energymadeeasy.com.au

contribute to cost-of-living pressures. When undertaking actions under the Regulated Tariff Strategy, Aurora Energy is mindful of the impacts on cost-of-living pressures and seeks to ensure these pressures are mitigated rather than inflated.

3 ENGAGEMENT AND APPROACH

So far in 2024, Aurora Energy has held a number of engagement sessions relating to its regulated tariff suite. This has been principally about its decision to grandfather flat rate tariffs however a range of regulated tariff concepts have been raised and discussed. Including:

- the overarching purpose of the Tariff Schedule;
- the need to make certain tariffs obsolete or abolished;
- the introduction of market offers outside of the Regulated Tariff Schedule;
- the impacts of network tariff reform;
- the important of cost reflectivity and tariff rebalancing; and,
- potential new tariffs.

Most recently, Aurora Energy held a Regulated Tariff Strategy forum on 19 August 2024 where a wide group of residential and business customer representatives attended to provide direct feedback on the Regulated Tariff Strategy. At this forum and these engagements held and attended by Aurora Energy the following feedback points have been clear:

- Change to the Tariff Schedule, whether positive or negative for customers, can be challenging to understand and/or accept given its significance for standing offer customers and the irregularity in which the Tariff Schedule is amended.
- Change to the Tariff Schedule has largely been driven by factors outside of Aurora Energy’s control.
- Where change is occurring outside of Aurora Energy’s control, there is either an expectation or a request by stakeholders that Aurora Energy take action to help mitigate points of impact.
- Tariff rebalancing is a complex topic but one that most stakeholders recognise as important to the viability of Aurora Energy.
- However, there are limits at which stakeholders will accept end use impacts in order to see Aurora Energy better manage risk from tariff misalignment.
- Small business stakeholders are seeking greater movements in tariff reform to ensure any cross subsidies between residential and business tariffs are removed.
- What is cost reflective for upstream energy businesses is not necessarily cost reflective for downstream users.
- There are contradictory points when new tariffs are considered, particularly around demand based tariffs with some stakeholders seeing these as critical to support CER products whilst other remain deeply concerned about customers taking on these complex tariff structures.

This feedback has been essential in shaping this Draft Regulated Tariff Strategy and throughout December 2024 and beyond, Aurora Energy will seek further targeted feedback from relevant stakeholders on this Strategy.

Aurora Energy further offered dedicated sessions with interested stakeholders upon release of the Draft version of this Regulated Tariff Strategy on 6 December 2024.

Ahead of its submission to the Regulator's Draft Determination, Aurora Energy also shared its response to the Regulator's findings on the Draft Regulated Tariff Strategy with interested stakeholders.

4 TARIFF STRATEGY SUMMARY

Aurora Energy has developed three key principles and implementation steps for its Regulated Tariff Strategy in order to reflect the broader market and regulatory environment as well as guide its objectives across the 2025 Determination period:

Figure 1 – Regulated Tariff Strategy

<table>
<tr><td>Simplicity</td><td>Make energy easy for Tasmanians.
Provide the ability to make minor changes to tariff names, terms and conditions, and reflect relevant regulatory changes.</td></tr>
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Develop and apply a new regulated flat rate tariff to commence from 1 July 2026.
No other new tariffs are proposed although Aurora Energy retains flexibility to introduce new tariffs, if required.</td></tr>
</table>

The three key principles guiding the Regulated Tariff Strategy frame the future points of implementation that may be realised across the periods of the 2025 Determination. These are described further in Sections 5-7.

These points of implementation are designed to both address historical and ongoing inputs that impact the Tariff Schedule, such as network tariff structures.

5 PRINCIPLE 1 - SIMPLICITY

Simplicity	• Make energy easy for Tasmanians. • Provide the ability to make minor changes to tariff names, terms and conditions, and reflect relevant regulatory changes.

Maintaining a Regulated Tariff Schedule that is clear, transparent through the principle of simplicity is critical to the overall customer experience. This may be in the form of readability for customers and/or through displaying tariff terms, conditions and formats that are understandable and not subject to industry jargon.

Presently, the Standing Offer Price Approval Guideline enables simple aspects of the Tariff Schedule to be amended to maintain simplicity and transparency and this provision is sought to be retained.

As noted in Section 2.4. most retail competitors to Aurora Energy utilise the Tariff Schedule as a default set of tariffs or reference rates from which to base their own offers on. As such, there is a responsibility on the Regulator to ensure that the Tariff Schedule is simple and accessible for all Tasmanian customers.

Further, the Tariff Schedule should remain in compliance with national obligations overseen by the AER, such as its Retail Price Information Guidelines. The Tariff Schedule should align with any regulatory changes to tariff terminology to provide a consistent point of reference for all market participants. The need for consistency and ease of reference is an overarching theme in regulatory and market reviews of the effectiveness of competition.

To this end, where possible across the regulatory period, Aurora Energy will look to reflect network tariff terms and conditions whether this be connection requirements, tariff time periods or other network tariff adjustments of a non-price nature.

At this point in time, Aurora Energy identifies no immediate points of change to the Tariff Schedule to introduce additional simplicity although these needs may present closer to the annual price reset process. This has been the case in the two previous regulated tariff strategies which has seen the Tariff Schedule progress and improved to its current form.

Aurora Energy will continue to monitor and seek to update tariff terminology and terms and conditions to reflect market and regulatory requirements as well as changing customer expectations concerning tariff presentation.

6 PRINCIPLE 2 - FAIR AND EQUITABLE PRICING

Fair and equitable pricing	• When proposing to make tariffs obsolete and/or abolished, Aurora Energy will seek the Regulator's approval. • Develop and commit to cost reflective tariffs including alignment with network tariff movements. • With the exception of 'very low' consumption profile Tariff 22 customers, apply a tariff rebalancing side constraint that no typical customer bill outcome (as defined by the Regulator's Typical Customer Methodology) is more than three per cent higher than it otherwise would be under a uniform price change. • For 'very low' consumption profile Tariff 22 customers (as defined by the Regulator's Typical Customer Methodology), apply a tariff rebalancing side constraint that the bill outcome is no more than five per cent higher than it otherwise would be under a uniform price change. • Conduct a review of the Tariff 22 customer segment with recommendations to be submitted to the Regulator by 28 November 2025.

When retail tariffs are established without direct correlation to how relevant input costs feed into them, they become arbitrary, unsustainable and potentially lead to perverse customer outcomes. A disconnection between input costs and retail tariffs can result in a retailer unfairly subsidising other parts of the supply chain.

Whilst Section 2.2, highlights that cost reflectivity has become a vexed goal with rule makers and rule enforcers issuing contradictory positions, cost reflectivity is nonetheless an outcome that in its absence can significantly affect retailers and their customers. Network tariffs are clearly the major determinant of whether cost reflectivity can be achieved. Hence, a salient goal for retailers is for retail tariffs to remain aligned with the movements of network tariffs, both on a past and future trajectory.

To this end, Aurora Energy has identified key areas that require provisioning for in the Regulated Tariff Strategy to ensure Aurora Energy is able to represent fair and equitable pricing that provides an overall benefit to Tasmanian customers now and into the future.

6.1 OBSOLETE AND ABOLISHED TARIFFS

The Standing Offer Price Approval Guideline, as designed now, allows for a number of the actions to be undertaken to keep tariffs fair and equitable, such as the ability to introduce new tariffs and make tariffs obsolete or abolished where necessary.[10]

[10] Standing Offer Price Approval Guideline 2022, Tasmanian Economic Regulator

The ability to make tariffs obsolete has been undertaken on multiple occasions in the last ten years. Most recently in the annual price reset for 1 July 2024 where flat rate regulated tariffs were made obsolete or 'grandfathered'.

As per the Regulator's requirement from the Final Report for the 2025 Determination, Aurora Energy will seek the approval of the Regulator for proposals to make tariffs obsolete or abolished. It is envisioned that a request for approval would be part of the Annual Retail Price Proposal process.

6.2 TARIFF IMBALANCES

Tariff imbalance refers to the costs Aurora Energy pays to suppliers to service a tariff being different to the revenues it recovers from customers through retail tariff rates. Also referred to as a lack of "cost reflectivity". Imbalances mean that:

- Customers don't pay what their product is worth (i.e. pay too much or too little);
- Network price signals are not effectively passed on to customers, resulting in a lack of behavioural change needed to achieve the objective of lowering the overall cost of the system for Tasmania; and,
- Aurora Energy, and other retailers, are exposed to heightened forecasting and financial risks.

These imbalances have been created over several years, driven by:

- Structural elements of retail tariff policy, including discounting of heating and legislating uniform price capping; and,
- Aurora Energy being constrained to pass through underlying changes to supplier costs – i.e. TasNetworks shifting costs from variable to fixed rates at a faster rate than Aurora can.

Aurora Energy has undertaken (limited) rebalancing in previous periods. In approving the 2016 Standing Offer Tariff Strategy, the Regulator allowed Aurora Energy to incrementally adjust tariffs to reflect the underlying input costs of their provision. This was undertaken for all tariff relativities between fixed and variable costs for a single period (1 July 2017 to 30 June 2018). This was undertaken due to a long-standing inability to pass-through costs directly to individual tariff and tariff components. Whilst a small portion of this imbalance was addressed in Period 2 of the 2016 Determination, the impacts from the longstanding disconnection between retail tariff movements and underlying costs continued and progressed over the subsequent years.[11]

[11] As described in the 2016 Standing Offer Tariff Strategy, the impacts of the 2013 Determination showed network tariffs increased at rates that reflected changes between fixed and variable rates as well as changes between residential and small business tariffs whereas the corresponding price change in standing offer tariffs and tariff components moved at a uniform rate of change, p.15-16

Rebalancing at a higher level between residential and business customer segments was undertaken during the final period of the 2016 Determination (1 July 2021 to 30 June 2022).

Aurora Energy recognises that tariff imbalances and the extent of their impact can be opaque and lack clarity to external parties. However, sharing the detailed aspects of where tariff imbalances exist can lead to the revealing of commercially sensitive information. To this end, Aurora Energy has requested this information remain confidential. Aurora Energy notes that as it progresses its tariff rebalancing over the life of the 2025 Determination, these imbalances will reduce. At a future point where tariffs are no longer imbalanced, whether in this determination or the next, there will no need to display the imbalances as these will no longer exist. During the period in which these tariff imbalances persist, Aurora Energy will engage directly with customer representatives to share this information on a confidential basis.

Recently, under the 2022 Determination, Aurora Energy undertook a limited form of rebalancing by shifting more recovery into fixed rates and ensuring no typical customer in the low to high consumption range was impacted by more or less than a 1 per cent variation to this average increase.

Given the drivers for tariff imbalances continue as does the progressive tariff reform actions of TasNetworks, Aurora Energy proposes to incrementally transition to more cost reflective tariffs across the 2025 Determination in order to create fair and equitable pricing.

Aurora Energy notes that rebalancing of tariffs within individual tariffs across fixed and variable components is not only consistent with past Tasmanian regulatory practice but is also consistent with the approach in most price regulation frameworks. For example, the reference rates of the DMO and VDO both allow retailers to set their own fixed and variable prices underneath the reference/fixed price terms. The ICRC also allows for rebalancing noting:

> *"We concluded that ActewAGL should retain discretion to set individual tariffs in the regulated tariff basket. The current approach gives ActewAGL flexibility in setting tariffs so that ActewAGL can adjust prices to meet market conditions and ensure that tariffs are cost reflective"*[12]

Aurora Energy will seek to ensure tariffs are sustainable and progressively become more reflective of actual supply costs. This will be done in two steps:

1. Ensuring that price movements for individual components are passed-through to the underlying price movements associated with each tariff.
2. Seeking to redress the historical imbalance in retail tariffs created by multiple periods of uniform price changes that did not keep pace with changes to network tariff components.

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[12] ICRC, Retail electricity price investigation 2024-27: Report 1, January 2024, p22. *** AER, Default market offer prices 2023–24: Final determination, May 2023, p8

Aurora Energy proposes that the method for delivery of the cost reflectivity movements should be based on the broader inputs into the retail price proposal for the relevant period of the 2025 Determination. In the instance of full cost reflective changes across both fixed and energy charges, Table 6.1 below outlines the proposed allocation changes in tariffs across each component in a Standing Offer tariff.

Table 6.1: Supply cost movement allocation to Standing Offer Tariff components

Supply Costs	**Standing Offer Tariff Component**	
	Fixed (Daily charge)	**Energy (Variable)**
Cost-To-Serve	✓	
Wholesale Electricity Costs		✓
RET Costs		✓
AEMO Costs	✓	✓
Prior Period Costs		✓
Metering Charges	✓	
Network Charges	✓	✓
Retail margin	✓	✓

Aurora Energy has developed examples to explain the application of the two proposed steps above with these examples followed by a proposed tariff rebalancing methodology.

6.2.1 Tariff Rebalancing Explained

When cost reflectivity imbalances are outlined, it is typically at three different levels with these levels representing varying impacts of the same problem at different levels of aggregation:

The key point is to address cost reflectivity completely, imbalances need fixing at the discrete tariff component level (level 3), which is the most granular level.

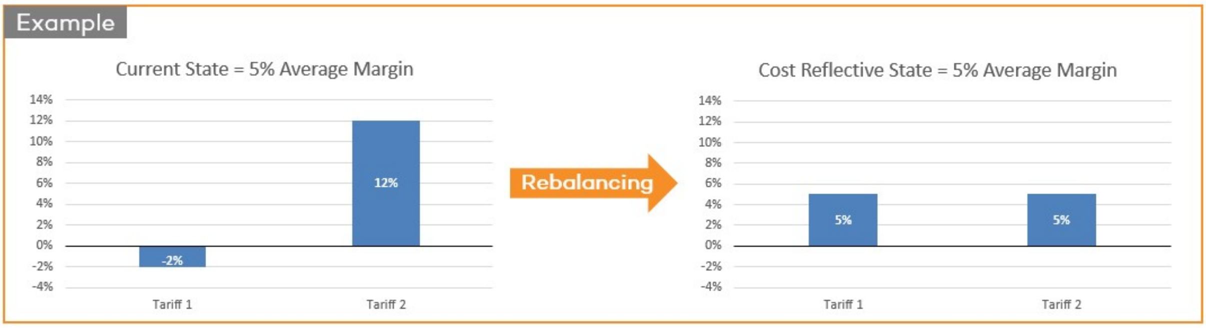
The following examples demonstrate the three levels mentioned above to outline the implications of tariff imbalances.

Level 1 - Recoveries at a Total Tariff Level

The Notional Maximum Revenue (NMR) calculation approved by the Tasmanian Economic Regulator determines WHAT costs Aurora Energy can recover from its customers but isn't as prescriptive on HOW these costs can be recovered.

In an ideal world, individual retail tariffs would be priced the same way. However, this is not the case. Figure 3 below demonstrates how margins on different tariffs in the tariff suite may vary to get the same total outcome.

Figure 3 – Recoveries at a total tariff level



This is commonly referred to as "Cross-subsidisation", as customers on Tariff 2 are paying more to make up for customers on Tariff 1 contributing a low or negative margin.

Level 2 - Recoveries by Fixed and Variable Totals

In the Notional Maximum Revenue (NMR) for 2024-25, Aurora Energy is forecast to receive $168.8M in fixed costs from its regulated customers.

However, the way the retail tariff rates are currently structured means that Aurora Energy will only recover $127.8M through its fixed charges (assuming the billing days and load forecast is 100% accurate).

The remaining $41M is recovered via the variable charges and is at risk to Aurora Energy from forecasting variances due to external factors like weather, or COVID impacts on the historical load used to determine forecasts.

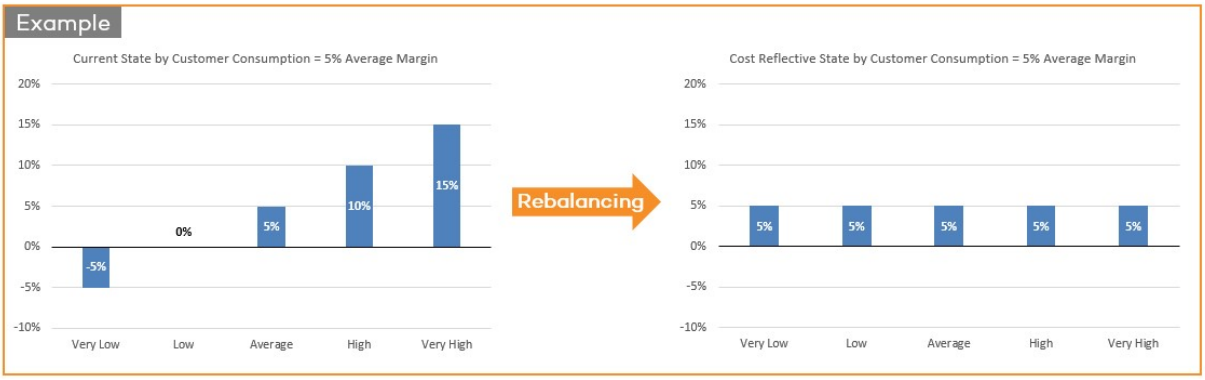
In the last two Standing Offer price resets, Aurora Energy has done a "lite" rebalance to move some variable costs to fixed to move closer to cost reflectivity and reduce its exposure to load forecasting risk. However, this "lite" style of rebalancing shown in Figure 4 is still at an aggregated level (i.e. total fixed and variable) and doesn't address the cost reflectivity of the individual tariffs.

Figure 4 – Recoveries by Fixed and Variable Totals

Figure 5 below shows what impact the existing fixed vs variable imbalance does at a customer level.

As fixed retail rates are too low, lower consuming customers return insufficient or even negative margin values and high consuming customers are over-charged.

Figure 5 – Recoveries by Fixed and Variable Totals

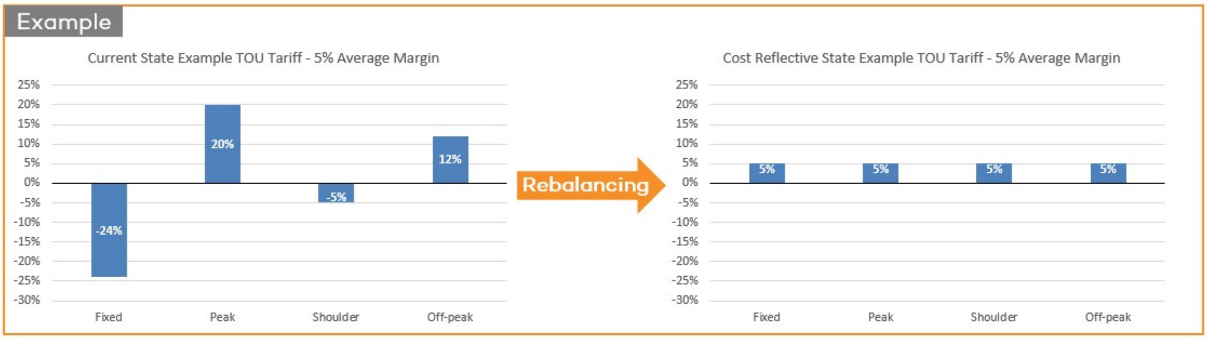


This is a different type of intra-tariff cross-subsidy, where higher consumers are subsidising lower consumers.

Level 3 - Recoveries by individual Tariff Component

At the disaggregated level, Aurora Energy intends to address the imbalance not just between fixed and variable, but also between the components that make up the variable charges. These variable components may be the ToU (i.e. peak/off-peak/shoulder), energy step (i.e. 1 & 2), or the multiple energy charges for combination tariffs (i.e. T31/41). For example, using a fictional time of use tariff, a Tariff may return a retail margin equivalent to 5 per cent but every component is out of balance, as demonstrated in Figure 6 over page. This imbalance dilutes price signals that the distributor seeks to send customers through its AER-approved network prices.

Figure 6 – Recoveries by individual tariff component – ToU example



By contrast, Figure 7 below shows how the broader tariff suite of non-cost-reflective tariffs interacts to achieve the regulated retail margin allowance. Every tariff is out of balance at the most granular component level and when aggregated to the tariff level, each tariff returns a different average margin. When tariffs are aggregated to a total tariff suite level, the average margin aligns to the retail margin allowance.

Figure 6 – Recoveries by individual tariff component – across tariffs

6.2.2 Proposed Method for Fair and Equitable Pricing

To gradually unwind the current tariff imbalances, Aurora Energy needs to adjust retail rates non-uniformly at each price reset – i.e. increasing some components and decreasing others. This will result in some inconsistent price changes for customers.

The typical mechanism used to ensure year-on-year customer impacts don't vary too much is a side constraint. Side constraints can be applied in different ways and in the most recent price resets have been applied at a customer bill level to ensure that annual bill outcomes for typical customers don't vary more than +/- 1% than they otherwise would under a uniform price change.

It was noted that during the most recent 2024-25 price reset, that the applied side constraint was not sufficient to adjust retail rates to both:

- reflect the changes in fixed vs variable mix of underlying supplier costs (i.e. Network tariffs); and
- begin to address legacy imbalances noted on previous slides.

As part of the Draft Regulated Tariff Strategy, submitted on 6 December 2024, Aurora Energy sought to redefine this side constraint as in order for any progress to be made on re-balancing it will need to be large enough to incorporate known future changes in underlying costs, such as TasNetworks aligning T41 network rates with T31 as well as to gradually address the legacy imbalances.

In doing this, Aurora Energy's strong intent is that any proposed side constraint methodology and/or value should provide adequate protection to consumers whilst progressively achieving the outcome of transitioning to cost reflective tariffs.

In its Preliminary Submission of 11 November 2024, Aurora Energy's initial request of "*No median typical customer bill outcome is more than 5 per cent higher than it otherwise would be under a uniform price change.*" was responded to by the Regulator in the Draft and Final Determinations and amended to be as follows:

- to apply a side constraint of three per cent to all customers to any tariff rebalancing proposal made by Aurora Energy as part of its annual price proposals; and
- to apply a side constraint of five per cent to very low consumption typical customers on Tariff 22.

The Regulator also required Aurora Energy to review its Tariff 22 customer segment to ensure it has information about the characteristics of this group and will provide the Regulator recommendations by 28 November 2025. This was proposed by Aurora Energy in response to the concern that the Regulator expressed about the very low usage Tariff 22 customer quintile and the types of customers in this grouping. Aurora Energy will complete this review by the nominated date. As for the pace at which rebalancing is delivered, it is Aurora Energy's intent to be highly mindful of how it applies rebalancing with the resolution of imbalances potentially requiring a longer time period than currently afforded by the three-year 2025 Determination.

Table 6.2 below uses an example to articulate how this final model for tariff rebalancing will look like when applied to a retail bill including at the unit rate level and at a median typical bill level. Note the numbers do not represent any of Aurora Energy's actual tariffs.

Table 6.2 – Example Customer Impacts on retail tariffs with a +3% side constraint.

Retail Tariff Component	PY Retail Rate ($)	Uniform Price Change (%)	Retail Rate with Uniform Increase ($)	Reflective Costs ($)	*Re-balancing Adjustment ($)*	Adjusted Retail Rate ($)
Fixed	$1.20	2%	$1.22	$1.60	*$0.10*	$1.32
Peak	$0.38	2%	$0.39	$0.32	*-$0.02*	$0.37
Off-peak	$0.19	2%	$0.19	$0.25	*$0.01*	$0.21

Median Customer Annual Bill	PY Median Bill Total ($)	Uniform Price Change (%)	Bill Total with Uniform Increase ($)	Reflective Costs ($)	*Re-balancing Adjustment ($)*	Adjusted Total Bill ($)
Customer Bill Impact						
Fixed	$438.00	2%	$446.76	$584.00	*$34.99*	$481.75
Peak (30%)	$857.14	2%	$874.29	$720.00	*-$39.34*	$834.95
Off-peak (70%)	$1,000.00	2%	$1,020.00	$1,312.50	*$74.58*	$1,094.58
	$2,295.14	**2%**	**$2,341.05**	**$2,616.50**	***$70.23***	**$2,411.28**
	A		B			C

(B-A)/A = *2.00%*
This demonstrates the annual change to the bill under a uniform approach if there was a 2% increase in pass through costs.

***(C-B)/B =* 3.00%**
This demonstrates that after some re-balancing, the bill is no greater than 3% higher than it would be under a uniform price change of 2%

In seeking to have the above tariff rebalancing apply for the life of the 2025 Determination, Aurora Energy notes it will include detailed consumer impacts for each year of the regulatory period as part of the Annual Standing Offer Price Approval processes.

Regarding the NMR methodology, Aurora Energy notes there are currently no constraints in the NMR calculation preventing movements in individual prices, so long as the overall NMR is not exceeded and is developed in line with the Regulated Tariff Strategy and Price Approval Guideline. Hence, there is no explicit rule preventing the Regulator from approving the proposed tariff rebalancing methodology, subject to consideration of its relative merits.

6.2.3 Tariff 31 and 41 parity movements

As a supplementary point to Tariff Rebalancing, Aurora Energy notes there has been recent discussions on the potential future of Tariffs 31 and 41 given TasNetworks has AER approval to bring their network versions of these tariffs (TAS31 and TAS41) into alignment over a five-year period from 2024-2029.

Specifically, there has been confusion over how the movement in network tariffs relates to or impacts retail tariffs. It is clear from these recent discussions that there is much confusion over the future of Tariff 31 and 41. To address this, Aurora Energy notes the following:

- Aurora Energy has no role in the setting of network tariffs, this is solely the remit of the AER and TasNetworks.

- Whilst TasNetworks has been moving the relativities of its TAS31 and TAS41 since 2017, Aurora Energy has not been able to reflect these changes due to price capping policies, hence, the gap between TasNetworks' TAS31 and TAS41 is relatively small whilst the gap between Aurora's Tariff 31 and Tariff 41 is far wider.

- There is no proposal from Aurora Energy to increase its Tariff 41 by 50 per cent to meet Tariff 31 on 1 July.

- In line with Aurora Energy's objectives for cost reflective tariffs, price parity for Tariff 31 and 41 may be achieved over a longer period of time however, this is a goal for parity as opposed to one tariff lifting to the other's level.

It is important to note that pass-through costs are outside of Aurora Energy's control and that Aurora Energy cannot recover any more margin from its customers than the Regulator allows. Therefore, any increases to one tariff will always be equally offset by decreases to other tariffs in real terms as Aurora Energy moves towards a balanced tariff suite.

7 PRINCIPLE 3 - STANDING OFFER SAFETY NET

Standing offer safety net	• Only add a new tariff to the Regulated Tariff Schedule if it:
	  ◦ is simple and understandable;
	  ◦ limits the potential for negative customer outcomes;
	  ◦ is cost reflective; and,
	  ◦ can be accessed by a broad range of customers.
	• Develop and apply a new regulated flat rate tariff to commence from 1 July 2026.
	• No other new tariffs are proposed although Aurora Energy retains flexibility to introduce new tariffs, if required.

7.1.1 Standing Offer Tariff Schedule as safety net

The regulated Tariff Schedule provides a high level of protection to Tasmanian customers, not only within its own operation but also in how it interacts with other regulatory instruments, such as the National Energy Retail Rules and various AER Guidelines given it sets the 'Standing Offer Prices' for Aurora Energy.

The Tariff Schedule is the final document that represents the Regulator's 2025 Determination findings and the approval of the prices that are annually reset. It has remained relatively unchanged for the last two decades with a limited number of tariffs being made obsolete in that time and only two new additional tariffs being added in 2016 (Tariff 93 Residential Time of Use and Tariff 94 Business Time of use).

Hence, the Tariff Schedule is a highly static instrument. The addition of the two ToU tariffs in 2016 was an important step in introducing two new tariff choices for customers, ones whose unit prices have remained at comparably low levels throughout their existence. However, the introduction of the new tariffs was a lengthy and complex process, predicated on two tariffs being made available to the entirety of regulated customer base. This is the context for how the Tariff Schedule may be amended in future.

The tariff environment Aurora Energy is facing is one of greater complexity which drives the need for targeted, distinct and flexible product offerings. The inherent restriction with the Tariff Schedule is that it can only be updated at the time of the annual price reset. This limits its effectiveness as a modern flexible mechanism as there are only three opportunities within a Determination period for it to be adjusted.

It is important to monitor the market changes and identify potential areas to evolve a tariff offering. In some circumstances this may be in response to network tariff reform or a competitive driver. However, products that retailers seek to offer that are unique or restricted should not form part of the tariff schedule. To do otherwise compromises Aurora Energy ability to innovate and distinguish itself in a full and active competitive market.

7.1.2 Interaction of standing offer tariffs and market offers

In recent years, Aurora Energy has moved to start offering market retail offers to customers outside of the Regulated tariff schedule. This reflects the approach undertaken in mainland NEM jurisdictions where standing offer tariffs are used by only 17 per cent of the small customer base (residential and small business combined). By contrast, the vast majority of Tasmanian small electricity customers utilise the regulated Tariff Schedule.

Typically, regulated tariffs are designed to be generally available. Their core purpose is to ensure customers have access to an energy 'offer' that is fair and reasonable. Whilst some regulated tariffs are subject to certain tariff terms and conditions, such as the heating and hot water system requirements of Tariff 41, even these terms are broadly achievable by the vast majority of Tasmanian electricity users.

Aurora Energy considers that when examining whether to add a tariff to the regulated tariff schedule that tariffs should mirror the principles of simplicity and cost reflectivity. Importantly, given the typical general availability of regulated tariffs, any new tariff added to the schedule should be highly focussed on ensuring there is no potential for unintended customer outcomes.

As such, Aurora Energy will only seek to add a tariff to the Regulated Tariff Schedule if it meets the following conditions:

- it is simple and understandable;
- it limits the potential for negative customer outcomes;
- it is cost reflective; and,
- it can be accessed by a broad range of customers.

As described in Section 2.2, Aurora Energy considers its new flat rate market offers as restricted offers that are targeted at delivering a specific service. These tariffs are not cost reflective and carry network tariff misalignment risk. These tariffs may only financially benefit a small number of customer given the majority of Aurora Energy customers have been determined as better off on a ToU tariff.

It is Aurora Energy's expectation that some products it may seek to offer throughout the 2025 Determination may also need to compensate for decisions imbedded in new network tariff structures or regulatory decisions taken by the AEMC in its active rule change process considering tariff assignment options.[13] Within these instances, it is again the retailer's choice as to whether it accepts tariff misalignment risk.

[13] https://www.aemc.gov.au/rule-changes/accelerating-smart-meter-deployment

Misaligned tariffs are presently part of the Tariff Schedule although this Draft Tariff Strategy is actively seeking to redress these instances. If new non-aligned tariffs are included in the Tariff Schedule, or tariff rebalancing is not addressed, this will enshrine not only Aurora Energy's tariff risk profile but also other retailers who base their tariff offerings of this schedule. The following Table 7.1 outlines a simplified view of the differences between standing offer tariffs and market offers.

Table 7.1 - Differences between standing offer tariffs and market offers

	Standing Offer Tariffs	Market Offers
Characteristic	• Available to majority of customers and classified as 'generally available' under AER guidelines. • Intended to serve a material segment of the market. • Have achievable terms and conditions. • Future amendments are based on redressing tariff imbalances	• Available to minority of customers and classified as 'restricted offer' under AER guidelines. • Designed to meet distinct purpose or unique aspect of the energy market. • May carry some tariff imbalance risk going forward.

7.1.3 New flat rate regulated tariff

Aurora Energy notes the Regulator's requirement for Aurora Energy to make a flat rate regulated tariff available to small customers.[14]

Aurora Energy maintains that it is already meeting the goal of providing customers with choice in retail tariffs with the offer of its flat rate market retail contract. This was done as a positive and proactive response to stakeholder feedback, all undertaken without the need for regulatory intention. Aurora Energy notes its voluntary decision to offer a flat rate market offer is likely to have influenced the AEMC decision, however, Aurora Energy disagrees with the AEMC assessment that under the scenario of tariff misalignment that retailers are not uniformly worse-off.

However, a consistent point of feedback has been the desire to see a single rate, flat rate tariff form part of the Regulated tariff schedule with this suggested by multiple stakeholders. Accordingly, Aurora Energy accepts the Regulator's decision to require Aurora Energy to prepare for approval a regulated flat rate tariff for small customers with commencement of the new tariff starting on 1 July 2026.

[14] Tasmanian Economic Regulator, 2025 Regulated Retail Electricity Pricing Investigation – Final Report, p.21.

7.1.4 Other potential new regulated tariffs

Whilst Aurora Energy is seeking to retain the ability to introduce new tariffs, outside the new flat rate regulated tariff set for July 2026, there is currently no intention to propose a new tariff for introduction in the first period of the 2025 Determination. However, Aurora Energy is seeking to retain the ability to introduce a new standing offer tariff, if the need arises.

Aurora Energy has reviewed a range of potential new tariffs, including demand-based tariffs and electric vehicle tariffs but does not consider these would fit within the scope of its consideration of what is best suited as standing offer tariff as described above in Table 7.1

7.1.5 Methodology for new tariffs, if required

If the need for a new standing offer tariff arises, the following methodology is proposed. Aurora Energy supports a continuation of the method outlined in the Regulator's Standing Offer Price Approval Guideline and 2.1(2)(e) that states the Standing Offer Price Proposal (annual price proposal) must:

> "demonstrate how any proposed new tariffs, meet the following new tariff assessment criteria:
>
> - the tariff is offered on an opt-in basis
> - the tariff reflects the relevant underlying network tariffs
> - the tariff is not linked to the provision of non-electricity services or products
> - the tariff promotes efficiency and competition in the electricity supply industry
> - introduction of the new tariff is in the long-term interests of electricity customers
> - the tariff price/s enables Aurora Energy to recover the cost of providing the tariff to a customer;
> - the description of the tariff and the terms and conditions are provided in clear, easily understood language
> - Aurora Energy has consulted with its customers on the proposed new tariff
> - adequate modelling has been conducted to determine the possible bill impact of the proposed new tariff on typical customers."[15]

Based on current market and regulatory information, the final form or requirement for new tariffs is difficult to predict, hence the need for a flexibility in the Tariff Schedule. To address this, throughout the 2025 Determination, Aurora Energy will monitor market and regulatory developments that may provide drivers to introduce new regulated tariffs and engage with customers and the Regulator on this basis.

[15] Tasmanian Economic Regulator, Standing Offer Price Approval Guideline May 2025, p.7.