

20 February 2025

Mr Joe Dimasi
Tasmanian Economic Regulator
By email: office@economicregulator.tas.gov.au

Dear Mr Dimasi

Input to Draft Determination Findings

As per Aurora Energy's Preliminary Submission to the 2025 Price-Regulated Retail Service Price Determination (2025 Determination), Aurora Energy is committed to supporting the ongoing price investigation informing the 2025 Determination.

Aurora Energy has reviewed key elements of our proposals and engaged with your office on points of factual accuracy, to ensure a Determination outcome that is clear and representative of the most recent market data, movements and process logic.

To this end, Aurora Energy has prepared further information on the following matters that it is providing as an input to your Draft Determination findings:

- Unaccounted for Energy.
- Wholesale Market Methodology.
- Inclusions in the Regulated Tariff Strategy.

These matters are discussed further below.

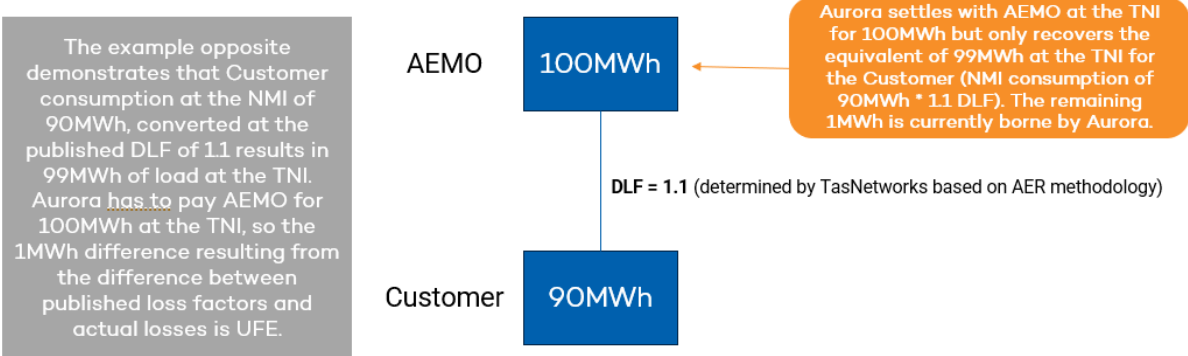
Unaccounted for Energy

Based on discussions with your office, Aurora Energy understands there is a need to provide further clarity over the application of Unaccounted for Energy (UFE) and method of recovery.

Aurora Energy notes that UFE, whilst not new to the business, has never been allowed for in regulated recoveries. There is no element of the Notional Maximum Revenue (NMR) calculation that explicitly factors in the recovery or pass-back of UFE and it is not accounted for in the Wholesale Energy Calculation (WECy). The WECy takes customer consumption at the premise (derived from retail billings), adjusted up for the distribution loss factor (DLF) and marginal loss factor (MLF), and multiplied by the Wholesale Energy Price (WEP).

WEC_y means the wholesale energy cost calculated as the forecast small customer load_y x MLF_y x DLF_y x WEP_y where the forecast small customer load_y for each year as provided by Aurora Energy and approved by the Regulator during the annual standing offer price approval process.

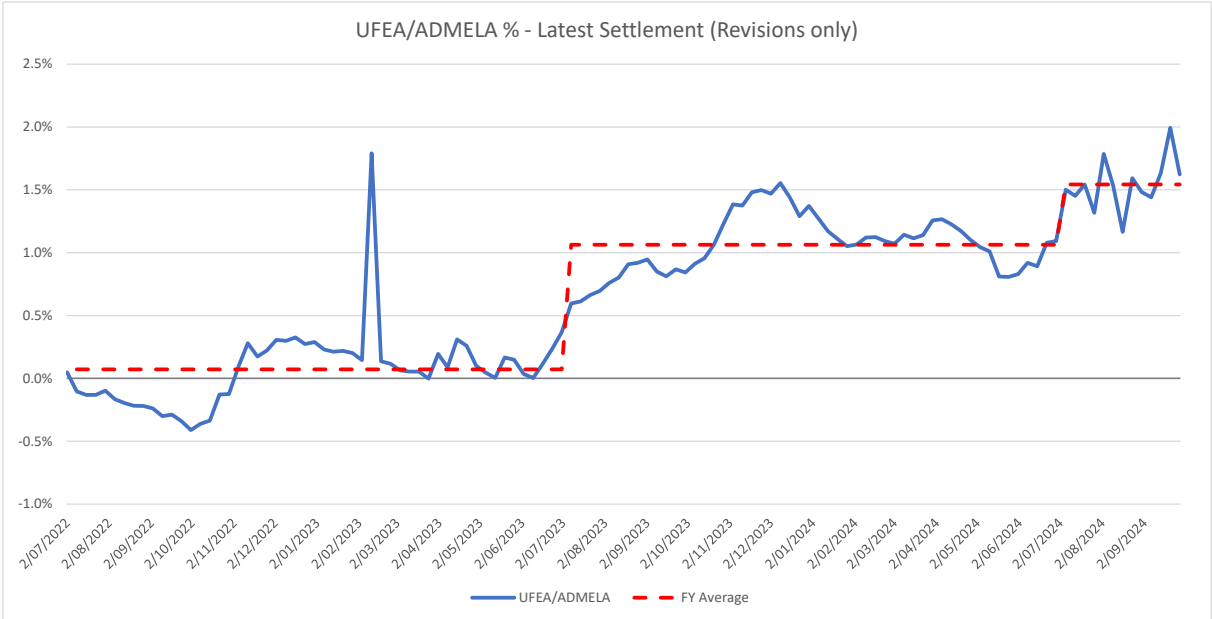
The key point is that the Notional Tariff Base (NTB) load used in the NMR is based on *customer consumption at the premise*, not the energy that Aurora Energy purchases from AEMO at the TNI (transmission node identifier). The fact that the NTB load is adjusted for the distribution loss factor (DLF) to calculate the WECy is evidence in itself that UFE is not currently included in the calculation, as the UFE is essentially the difference between the published DLF and actual distribution losses during the financial year.



Aurora Energy notes that prior to the Global Settlements Rule Change (Rule Change) in May 2022, UFE could not be quantified because it was not articulated separately on the AEMO settlements report, as it is now. In the past, any costs or benefits associated with energy losses would have impacted Aurora Energy’s retail margin recovery. Now that the cost is transparent, Aurora Energy contends that passing through (and truing up) UFE like other AEMO costs would be far more accurate than accounting for it by applying an estimated percentage to retail margin or the NTB load used in WECy.

Note that whilst UFE has always existed, the first year of data on UFE indicates that losses were as low as 0.07 per cent of total load. With no data prior to this date, this provides the only observable indication of what UFE may have been prior to the introduction of Global Settlements and it is clear that UFE is growing at the start of each financial year (e.g. when AEMO loss factors are updated). For the FY25 financial year to date, UFE is 1.54 per cent of total load (over 2000 per cent greater than two years prior). This is demonstrated below in Figure 1.

Figure 1 – UFE progression in since Global Settlements



Accordingly, Aurora Energy is proposing a method for calculation of UFE as part of AEMOy in the NMR calculation in its Annual Retail Price Proposal. Similar to FCAS, Aurora Energy will provide monthly UFE totals attributable to Standing Offer customers based on latest available AEMO settlement data. These monthly totals will be used to project future period UFE values as well as calculate under/over recoveries for prior periods, including periods 2 and 3 of the 2022 Determination. Noting the variability in UFE, under/over recoveries back to Period 2 of the 2022 Determination are important because Aurora Energy does not control the calculation of loss factors. Should UFE flip to a pass-back in future years (to offset the increases in recent years), then the ability to square up the complete cost of UFE is important and catered for.

Wholesale Electricity Price Methodology

Through discussions with your office, Aurora Energy understand your likely view on Wholesale Electricity Price (WEP) methodology for the 2025 Determination will be one that removes future prices and is only calculated on already observed prices when the WEP is estimated in May each year.

Aurora Energy is conditionally supportive of this new approach. However, as Aurora Energy noted in its submission to the Regulator's methodology review on 5 August 2024, removing future prices under the current methodology from the WEP calculation when it is calculated in May will result in a disproportionate weighting of volumes across quarterly contracts relative to the small customer load distribution over the quarters. For example, under the current methodology for the 2025/26 year, in May 2025 when the WEP is estimated, just 4 per cent of Q2025 contracts are to be priced in the future but 41 per cent of Q22026 contracts are yet to be priced. This means the WEP would not reflect the proper weighted hedging costs that a retailer would face.

Consequently, Aurora Energy's support of a WEP estimate calculated on already observed prices when the WEP is estimated in May each year is conditional on the following to ensure that the WEP is estimated consistent with the distribution of small customer load over the year:

- Changes are made to the methodology to ensure that volumes removed in the calculation from future periods are brought back into the calculation against already observed prices when the WEP is set; and
- The quarterly volumes in the WEP methodology's reference to the WCRI's minimum volumes is removed and replaced with the volumes based on the distribution of small customer load based on data made available by AEMO.

As previously discussed with the Regulator's officers, Aurora Energy's position is that the WEP methodology's reference to the WCRI's minimum volumes is removed and replaced with actual AEMO data and should apply to any WEP methodology for all observations, including the current approach, irrespective when they take effect.

Aurora Energy notes that the above methodology amendment warrants a significant notice period with a change to take effect no earlier than the second year of the Determination.

Regulated Flat Rate Tariff

On 1 July 2024, Aurora Energy grandfathered regulated flat rate tariffs (Tariffs 31, 41 and 22), in response to TasNetworks decision to grandfather its flat rate network tariffs. To mitigate customers impacts by a lack of choice, Aurora Energy created a flat rate market retail contract for both residential and small business customers.

Whilst this product has been successful in its design and delivery, feedback from stakeholders and your office indicates a regulated flat rate product is still strongly desired. In the event that this position eventuates as a firm outcome in the Final Determination, we request an appropriate 'lead-time' to develop this.

Between a likely Final Determination in early May to the time of the Retail Price Proposal submission on 31 May, there is insufficient time to prepare a new regulated tariff together with associated communications to customers. Typically, Aurora Energy will design and plan a new product delivery over a 6-12 month period. Accordingly, deferral of the new flat rate product is sought to the second pricing period of the 2025 Determination (1 July 2026).

Across Period 1 of the 2025 Determination, the flat rate market retail product currently in place will be maintained and is considered to meet the same intent of a regulated flat rate product.

For further discussion and action on the above, contact Giles Whitehouse, Head of Corporate Affairs, in the first instance: giles.whitehouse@auroraenergy.com.au

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nigel Clark', with a stylized flourish at the end.

Nigel Clark
Chief Executive Officer