



**PRICING PROPOSAL FOR PERIOD 4 OF  
THE 2016 STANDING OFFER PRICE  
DETERMINATION**

**1 JULY 2019 – 30 JUNE 2020**

## Pricing Proposal Overview

This document represents Aurora Energy's Pricing Proposal to the Tasmanian Economic Regulator (Regulator) outlining the maximum prices that it proposes to charge its regulated Standing Offer customers during the period 1 July 2019 to 30 June 2020 (Period 4 of the 2016 Standing Offer Price Determination).

Aurora Energy has proposed to apply a **uniform price increase of 2.0 per cent** to all Standing Offer tariffs at 1 July 2019. This is in accordance with the requirements of the *Electricity Supply Industry Act 1995*, which stipulates that price increases for Standing Offer Tariffs do not exceed the movement in the Consumer Price Index for Hobart.

For 2019-20, Aurora Energy proposes the total Notional Maximum Revenue (NMR) to be **\$537,423,543**, an increase of 3.2 per cent relative to the 2018-19 NMR of **\$520,626,083**.

There are a number of key movements in the 2019-20 NMR. The major movement relates to Wholesale Energy costs, which have increased by 11.6 per cent, from \$180.9M in 2018-19 to \$201.9M in 2019-20.

This increase has been partially offset by the movement in Aggregate Over/Under Recoveries. Under the 2016 Standing Offer Price Determination, Aurora Energy is allowed to adjust for under or over recoveries in relation to a number of costs that are based on estimates. These costs include Renewable Energy Costs, AEMO Charges and Metering Costs. In 2018-19, Aurora Energy recovered \$6.7M, however in 2019-20, Aurora Energy is passing \$3.1M back to customers.

In this Proposal, Aurora Energy proposes minor non-price changes to the Tariff Schedule. Specifically, refinements to the Tariff Schedule to ensure it is simple, transparent, and reflects terms and conditions of underlying Network Tariffs. The Proposal also outlines the abolishment of Tariff 34 and making Tariff 61 obsolete, however, it does not propose the introduction any new tariffs.

## 1. Notional Maximum Revenue Calculation

Aurora Energy's Notional Maximum Revenue (NMR) for Period 4 has been calculated in accordance with the following methodology prescribed in the 2016 Standing Offer Price Determination:

$$\text{NMR}_y = (\text{R}_y + \text{WEC}_y + \text{NC}_y + \text{M}_y + \text{AEMO}_y + \text{RET}_y + \text{K}_y) \times \text{Margin}_y + \text{A}_y + \text{CF}_y$$

where:

**NMR<sub>y</sub>** is the notional maximum revenue for the notional tariff base;

**R<sub>y</sub>** represents the cost to serve;

**WEC<sub>y</sub>** represents wholesale electricity costs;

**NC<sub>y</sub>** represents network charges;

**M<sub>y</sub>** represents metering costs;

**AEMO<sub>y</sub>** represents market participant fees and ancillary services;

**RET<sub>y</sub>** represents the cost of complying with the Australian Government's mandatory renewable energy schemes;

**K<sub>y</sub>** is an aggregate of under and/or over recoveries for network costs, metering costs, RET and AEMO charges from previous periods covered by the 2016 Standing Offer Price Determination;

**Margin<sub>y</sub>** represents a return on total costs;

**A<sub>y</sub>** represents any adjustments calculated in accordance with a methodology approved by the Regulator; and

**CF<sub>y</sub>** is an aggregate of under and/or over recoveries from previous periods covered by the 2013 Standing Offer Price Determination

The following sections outline the calculation of each component in the NMR formula.

## 1.1 Cost to Serve (R<sub>y</sub>)

R<sub>y</sub> has been calculated as follows:

*[Cost to Serve<sub>y</sub> x Prescribed Inflationary Factor x forecast number of small customers]*

Parameter	Value	Source
Cost to Serve <sub>y</sub>	\$145.69 per customer	2019-20 (Period 4) Cost to Serve (representing the \$138.45 set in the 2016 Standing Offer Price Determination as inflated by the Period 2, Period 3 and Period 4 Prescribed Inflationary Factors)
Prescribed Inflationary Factor	1.018	Calculated in accordance with 2016 Standing Offer Price Determination.
Forecast Customer Numbers	260,572	Reported to the AER as at 31 March 2019 (per 7.2 of Standing Offer Price Approval Guideline – 28 March 2019).
<b>R<sub>y</sub></b>	<b>\$37,963,076</b>	

## 1.2 Wholesale Electricity Cost (WEC<sub>y</sub>)

WEC<sub>y</sub> has been calculated as follows:

*[Forecast Small Customer Load<sub>y</sub> x MLF<sub>y</sub> x DLF<sub>y</sub> x WEP<sub>y</sub>]*

Parameter	Value	Source
Forecast Small Customer Load <sub>y</sub>	2,183.27 GWh	Aurora Energy 2019-20 Load Forecast
MLF <sub>y</sub>	1.0053	AEMO published loss factors.
DLF <sub>y</sub>	1.0503	AEMO published loss factors.
WEP <sub>y</sub>	\$87.56/MWh	Set in WEP Order made by Treasurer on 15 May 2019.
<b>WEC<sub>y</sub></b>	<b>\$201,854,453</b>	

### 1.3 Network Costs (NC<sub>y</sub>)

NC<sub>y</sub> has been calculated by multiplying TasNetworks' approved network prices for 2019-20<sup>1</sup> (network tariffs<sub>y</sub>) multiplied by the notional tariff base<sub>y</sub> for 2019-20. This results in total network costs of **\$213,246,702** for Period 4.

### 1.4 Forecast Metering Costs (M<sub>y</sub>)

The following table provides a detailed breakdown of the forecast metering costs (M<sub>y</sub>) calculated:

Detailed breakdown of Forecast Metering Costs (M <sub>y</sub> )	
TasNetworks direct metering charges relating to Type 6 basic meter installations	\$11,616,179
Metering Coordinator direct metering charges relating to Type 4 and Type 4A advanced meter installations	\$3,530,496
<b>Total Direct Metering Costs</b>	<b>\$15,146,675</b>
Fee-Based Services	\$452,723
Recovery of capital costs incurred to comply with AEMO's market system changes	\$548,823
<b>Total M<sub>y</sub></b>	<b>\$16,148,222</b>

Each component of M<sub>y</sub> has been calculated as follows:

#### *Direct Metering Costs*

To calculate each component of direct metering costs in the table above, Aurora Energy has undertaken the following approach:

1. calculated Type 4 and Type 4A advanced meter charges by multiplying the number of new and replacement advanced meters forecast to be rolled out by tariff during the period by the estimated weighted average meter charge by tariff (based on mix of meter types installed) (c/day) and forecast billing days for advanced meters for the period; and

2. calculated TasNetworks' basic meter charges by multiplying the balance of forecast total billing days for the period (adjusted for (1) above) by tariff by the weighted-average meter charge by tariff (c/day) (based on mix of meter types installed); and
3. calculated TasNetworks' capital meter charges by multiplying the forecast billing days for the period relating to those premises that have an advanced meter installed on a replacement basis by the capital daily meter charge (c/day).

It is estimated that Aurora Energy (through its appointed Metering Coordinator, Metering Dynamics) will install approximately 22,000 Type 4 and Type 4A advanced meters in 2019-20 on top of the forecast 18,820 installed as at 30 June 2019. On this basis, it is estimated that the annual metering charges associated with these installations will amount to \$3.5M, with approximately \$11.6M in annual charges relating to TasNetworks' existing Type 6 meters (including the recovery of capital charges associated with Type 6 meters replaced with Type 4 and Type 4A advanced meters).

*One-off, fee-based service charges for advanced meters*

Consistent with 2018-19, the following one-off, fee based service charges have been included in NMR:

- High-gain Antenna Installation;
- Conversion of a Type 4A to a Type 4 meter;
- Isolate at the service fuse (usually at the point of supply);
- On-site on-demand read for a Type 4a non-communications enabled meter (not customer requested); and
- "Regional" and "Remote" site service surcharge.

These one-off, fee-based service charges are estimated to total approximately \$0.5M in 2019-20.

*Recovery of capital and operating costs incurred to comply with AEMO's market system changes*

In its calculation of  $M_y$  in 2018-19, Aurora Energy included the recovery of capital costs incurred to comply with AEMO's market system changes. This was calculated at the applicable depreciation rate as approved by the TER in its decision on 26 May 2017 (i.e. over a period of six years) on a pro-rata basis from 1 December 2017. In 2019-20, approximately \$0.5M has been included in 2019-20  $M_y$  representing a full year of depreciation.

Based on the total estimated direct metering charges, one-off, fee-based services and the recovery of capital costs associated with AEMO market compliance,  $M_y$  has been calculated as **\$16,148,222**.

### **1.5 Forecast AEMO Costs ( $AEMO_y$ )**

$AEMO_y$  is calculated by applying the relevant fees published by the Australian Energy Market Operator for market participation (note these are draft as at the time of submitting this proposal) as well as an estimate for ancillary charges based on ancillary costs for May 2018 to April 2019.

After the initial publication of AEMO fees, an error was subsequently identified in AEMO's Full Retail Competition operation fees. This resulted in  $AEMO_y$  for Period 4 being calculated as **\$2,274,871**.

As the inclusion of this amount will result in a standing offer price increase above the 2.0% price cap as stipulated by the Treasurer in the 2019-20 Price Assessment Criteria (under the *Electricity Supply Industry Act 1995*), Aurora Energy has included **\$2,086,084** in NMR. Aurora Energy will seek to recover the forecast difference in  $AEMO_y$  (being \$188,787) as part of aggregate over/under recoveries in the 2020-21 Retail Price Proposal.

### **1.6 Renewable Energy Costs ( $RET_y$ )**

$RET_y$  has been calculated by:

- adopting the Clean Energy Regulator's published Renewable Power Percentage (RPP) for the first half of 2019-20;
- applying the RPP formula outlined in the Renewable Energy (Electricity) Act 2000 to calculate the forecast RPP for the second half of 2019-20;
- adopting the Clean Energy Regulator's binding and non-binding Small-scale Technology Percentage (STP) for the first half and second half of 2019-20 respectively; and
- applying the RPP and STP to forecast prices for Large-Scale Generation Certificates (LGC) and Small-Scale Technology Certificates (STC) respectively.

When applied to Aurora Energy's liable customer load and estimated renewable certificate costs,  $RET_y$  for Period 4 has been calculated as **\$40,223,851**.

### 1.7 Aggregate Over/Under Recoveries from 2016 Standing Offer Price Determination ( $K_y$ )

$K_y$  is estimated to be an over-recovery of **\$3,080,056** which is primarily driven by lower LGC market prices for 2019 and 2020 compared to the initial estimates in the pricing proposal for Period 3. Lower than forecast advanced meter costs are also contributing to the over-recovery.

Parameter	Value
REC <sub>y</sub> Final Adjustment 2017-18	(\$1,101,429)
REC <sub>y</sub> Preliminary Adjustment 2018-19	(\$1,359,367)
AEMO <sub>y</sub> Final Adjustment 2017-18	(\$31,063)
AEMO <sub>y</sub> Preliminary Adjustment 2018-19	\$4,378
Metering, Final Adjustment 2017-18	(\$69,614)
Metering, Preliminary Adjustment 2018-19	(\$522,961)
<b><math>K_y</math></b>	<b>(\$3,080,056)</b>

### 1.8 Aggregate Over/Under Recoveries from 2013 Standing Offer Price Determination ( $CF_y$ )

Aggregate Over / Under Recoveries relating to the 2013 Standing Offer Price Determination were finalised during 2017-18 and are therefore not applicable in 2019-20.

### 1.9 Retail Margin ( $Margin_y$ )

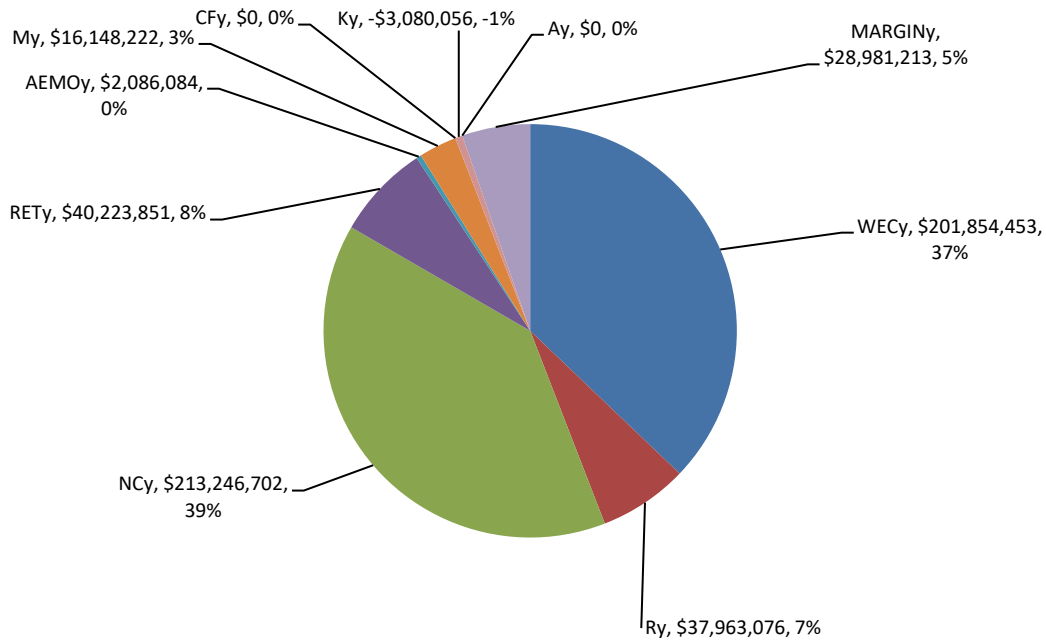
$Margin_y$  is calculated as 5.7 per cent of total costs (excluding  $A_y$ ) and is estimated to be **\$28,981,213** for Period 4.

### 1.10 Summary 2019-20 NMR

Taking into account the calculation of each individual cost component, Aurora Energy's total NMR for 2019-20 is **\$537,423,543**. This is an increase of 3.2 per cent relative to the 2018-19 NMR of **\$520,626,083**. The following chart shows the total NMR proposed for Aurora Energy for 2019-20 by cost component.



**Figure 2 – 2019-20 NMR**



In summary, the key movements in 2019-20 NMR are in wholesale energy costs and over recoveries from prior periods.

## **2. Non-Price Related Proposals**

Aurora Energy's Standing Offer Price Strategy (Price Strategy), approved as part of the 2016 Retail Price Determination, outlined a number of non-pricing related proposals aimed at enhancing consumer understanding of its tariffs through a simplified and transparent Tariff Schedule as well as introducing any new tariffs that would be of benefit to regulated Standing Offer customers.

On the basis that a WEP Order is in effect, Aurora Energy is not required to demonstrate to the Regulator compliance with its approved Price Strategy. However, Aurora Energy remains committed to achieving the objectives that underpin the Price Strategy and the following sections therefore provide Aurora Energy's proposals in relation to the non-pricing considerations outlined for Period 4.

A proposed Tariff Schedule reflecting its Price Strategy objectives is provided to the Regulator alongside the 2019-20 Price Proposal.

### **2.1 Abolished Tariff – Tariff 34**

As per the principle of transparency and simplicity outlined in the Price Strategy, Aurora Energy will propose to abolish regulated Standing Offer tariffs for which consumers are unable to access the underpinning network tariff and where there are no longer any consumers connected to the tariff.

Abolishing a tariff removes an obsolete tariff from the Tariff Schedule. Prior to abolishing a tariff it first must be made obsolete.

In this regard, Aurora Energy proposes that Tariff 34 (Nursing Homes Light and Power) be abolished from Period 4 on the basis that:

- it was made obsolete in Period 1 of the 2016 Retail Price Determination;
- the underpinning network tariff has been removed; and,
- there are no customers connected to this tariff.

### **2.2 Obsolete Tariff – Tariff 61**

From 1 July 2019, TasNetworks is making the underlying network tariff for Tariff 61 (TAS61) obsolete and no longer available to new customers from that date.

As per the practice of transparency and simplicity, and in being consistent with previous Price Proposals, Aurora Energy will mirror TasNetworks action and make Tariff 61 an obsolete tariff.

Customers currently using Tariff 61 will continue to have it applied to their retail bills, as will customers who move into premises that are currently assigned to Tariff 61.

Making Tariff 61 obsolete means it is no longer available to new installations or able to be applied to an existing installation not already assigned to the obsolete tariff. Tariff 61 with its unique afternoon boost structure is not replicated by any other standing offer tariff or underlying network tariff.

Tariff 61 will not be abolished until there are no longer any premises actively assigned to this tariff.

### **2.3 Changed approach to submission of terms and conditions for approval**

Aurora Energy is proposing a changed approach to submission of Standing Offer tariffs terms and conditions for approval.

The Price Approval Guideline (Guideline) places an obligation on Aurora Energy to provide the terms and conditions of tariffs on its website. Historically, Aurora Energy has prepared an A3 page that comprised its Tariff Schedule for approval by the Regulator. This Tariff Schedule was also used as the basis for its advertising in the three main newspapers for Tasmania.

Aurora Energy is seeking to provide a more customer friendly and accessible version of the Tariff Schedule for approval by the Regulator. For Period 4, Aurora Energy proposes to move away from the A3 'all one page' format published in the three major Tasmanian newspapers and instead publish an advertisement confirming there will be a price increase of 2.0% as from 1 July 2019 and that further details are available on the Aurora Energy website or by phoning Aurora Energy, with website and contact details provided. On the website, an A4 sized document stipulating the new prices effective from 1 July 2019 will be available for customers as required by the Guideline and the National Energy Retail Law. This revised format will present tariff prices, terms and condition details in a clearer, more readable format.

### **2.4 Changes to Tariff Schedule Terms and Conditions**

The Price Approval Guideline requires Aurora Energy to set out the terms and conditions that will apply to each tariff and charge. Aurora Energy must detail and justify any proposed changes to the terms and conditions that are to apply for the relevant period.

As part of the revised format, Aurora Energy has made a small number of minor editorial changes to ensure consistency and readability.

### **3. Proposed Maximum Prices for Period 4**

Following the final calculation of the NMR, the final price increase proposed by Aurora Energy is 2.0 per cent across all Standing Offer tariffs for the 2019-20 period.

The tables below show Aurora Energy's proposed maximum prices for 1 July 2019 to 30 June 2020 as well as the percentage movement in tariff components and the check that demonstrates that the calculated NMR will not be exceeded when its proposed prices are applied to forecast load.

**Proposed Maximum Prices for 2019-20 (excluding GST)**

	\$/day	\$/kWh	\$/kWh	\$/kWh	\$/kWh	\$/kWh	\$/kWh	\$/kW or kVA pa
Tariff	Daily charge	Energy Step 1	Energy Step 2	Energy Step 3	Energy Peak	Energy Shoulder	Energy OffPeak	Demand
22	\$ 0.94514	\$ 0.31401	\$ 0.23229					
31	\$ 0.87753	\$ 0.24509						
41	\$ 0.16362	\$ 0.15916						
43	\$ 0.16944	\$ 0.14874						
61	\$ 0.20222	\$ 0.12814						
62	\$ 0.19330	\$ 0.12069						
75	\$ 2.64773				\$ 0.28775	\$ 0.20954	\$ 0.13094	
82	\$ 2.96322	\$ 0.15223						\$ 141.02285
93	\$ 0.97485				\$ 0.29625		\$ 0.13794	
94	\$ 1.02377				\$ 0.25840	\$ 0.18677	\$ 0.10924	

**Proposed Maximum Prices for 2019-20 (including GST)**

	\$/day	\$/kWh	\$/kWh	\$/kWh	\$/kWh	\$/kWh	\$/kWh	\$/kW or kVA pa
Tariff	Daily charge	Energy Step 1	Energy Step 2	Energy Step 3	Energy Peak	Energy Shoulder	Energy OffPeak	Demand
22	\$ 1.03965	\$ 0.34541	\$ 0.25552					
31	\$ 0.96528	\$ 0.26960						
41	\$ 0.17999	\$ 0.17507						
43	\$ 0.18639	\$ 0.16362						
61	\$ 0.22245	\$ 0.14095						
62	\$ 0.21263	\$ 0.13276						
75	\$ 2.91251				\$ 0.31652	\$ 0.23050	\$ 0.14403	
82	\$ 3.25954	\$ 0.16746						\$ 155.12514
93	\$ 1.07233				\$ 0.32587		\$ 0.15173	
94	\$ 1.12615				\$ 0.28424	\$ 0.20544	\$ 0.12017	

**Percentage Movement in Tariff Components for 2019-20**

Tariff	\$/day Daily charge	\$/kWh Energy Step 1	\$/kWh Energy Step 2	\$/kWh Energy Step 3	\$/kWh Energy Peak	\$/kWh Energy Shoulder	\$/kWh Energy OffPeak	\$/kW or kVA pa Demand
22	2.00%	2.00%	2.00%					
31	2.00%	2.00%						
41	2.00%	2.00%						
43	2.00%	2.00%						
61	2.00%	2.00%						
62	2.00%	2.00%						
75	2.00%				2.00%	2.00%	2.00%	
82	2.00%	2.00%						2.00%
93	2.00%				2.00%		2.00%	
94	2.00%				2.00%	2.00%	2.00%	

**2019-20 NMR Check**

Tariff	\$/day* Daily charge	\$/kWh Energy Step 1	\$/kWh Energy Step 2	\$/kWh Energy Step 3	\$/kWh Energy Peak	\$/kWh Energy Shoulder	\$/kWh Energy OffPeak	\$/kW or kVA pa Demand
22	\$ 8,655,512	\$ 11,093,832	\$ 47,089,617					
31	\$ 69,207,201	\$ 197,329,501						
41	\$ 12,055,797	\$ 150,183,748						
43	\$ 68,156	\$ 1,016,683						
61	\$ 1,402,788	\$ 4,406,930						
62	\$ 149,788	\$ 654,374						
75	\$ 2,143,526				\$ 643,974	\$ 3,547,091	\$ 3,565,458	
82	\$ 62,731	\$ 1,033,838						\$ 268,790
93	\$ 3,155,734				\$ 3,680,145		\$ 3,690,634	
94	\$ 596,761				\$ 7,962,136	\$ 2,048,527	\$ 1,710,273	
<b>Total</b>	<b>\$ 537,423,543</b>							
<b>Allowed NMR</b>	<b>\$ 537,423,543</b>							

## 4. Customer Impacts

As a result of the uniform price increase, regulated Standing Offer customers will see consistent percentage movements in their retail tariff prices and annual electricity bills. However, the average annual electricity bill movement in dollar terms will vary depending on the tariff and consumption level. The bill movements (including GST) for different tariffs and combinations at typical levels of usage are shown below.

Tariff	Number of Customers	\$ Bill Movement			
		Low	Medium	High	
Small Business	22	23,755	\$ 18	\$ 45	\$ 130
	22/43	993	\$ 54	\$ 75	\$ 107
	22/61	302	\$ 75	\$ 106	\$ 152
	22/43/61	78	\$ 143	\$ 207	\$ 304
	22/62	281	\$ 59	\$ 116	\$ 265
	22/43/62	24	\$ 47	\$ 267	\$ 443
	75	2,212	\$ 80	\$ 109	\$ 154
	82	86	\$ 246	\$ 329	\$ 452
94	1,603	\$ 15	\$ 37	\$ 111	
Residential	31	10,730	\$ 17	\$ 23	\$ 31
	31/41	188,354	\$ 23	\$ 40	\$ 65
	31/61	3,278	\$ 27	\$ 36	\$ 50
	31/41/61	15,295	\$ 34	\$ 46	\$ 64
	31/62	287	\$ 21	\$ 36	\$ 55
	31/41/62	1,431	\$ 32	\$ 48	\$ 72
	93	4,490	\$ 22	\$ 38	\$ 62

## 5. Additional Charges

The Additional Charges applying from 1 July 2019 are shown in the table below.

Additional Charges	2019-20 Price
<b>Late payment fee</b>	A late payment fee of \$5.00 applies for accounts not paid in full by the fifth day past the due date (Pensioner, Health Care Card and other exemptions apply).
<b>Overdue accounts</b>	Overdue accounts for Standing Offer customers may be charged interest in accordance with the 2016 Standing Offer Price Determination.

## 6. Supporting Documents Provided to the Regulator

Document	NMR / Input Reference
31 March 2019 Customer Numbers submitted to AER	<b>Cost-to-Serve (R<sub>y</sub>)</b>
AR-#21145642-v2-STOF_Load_Forecast_Workings_2019-20_Corporate_Plan.XLS	<b>Load Forecast</b>
Treasurer's Wholesale Electricity Price Order for 2019-20	<b>Wholesale Electricity Costs (WEC<sub>y</sub>)</b>
AR-#21197357-v1-Loss_Factors_2019-20.XLSX	<b>Distribution and Marginal Loss Factors</b>
Indicative Network Charges provided by TasNetworks	<b>Network Costs (NC<sub>y</sub>)</b>
Green_Renewable - Master v66.xls	<b>Renewable Costs (RET<sub>y</sub>)</b>
AER - Final decision - TasNetworks distribution determination 2019-24 - Attachment 15 - Alternative control services - April 2019	<b>Metering Costs (M<sub>y</sub>)</b>
TasNetworks' Meter Register Numbers by type and tariff as at 31 March 2019	<b>Metering Costs (M<sub>y</sub>)</b>
AR-#21197767-v2-2019-20_Metering_Modelling.XLSX (advanced metering roll-out model )	<b>Metering Costs (M<sub>y</sub>)</b>
PPF130a Summary of Load by Tariff Jul 17 to Jun 18.xlsx	<b>2016 Determination Recoveries (K<sub>y</sub>)</b>
PPF130a Summary of Load by Tariff - Jul 18 to Apr 19.xlsx	<b>2016 Determination Recoveries (K<sub>y</sub>)</b>
Metering Charges Extract - from 1 Dec-17 .xlsx	<b>2016 Determination Recoveries (K<sub>y</sub>)</b>
AR-#21030296-v71-Energy_Purchases_Master_Sheet_-_from_01-07-2016_Version_3	<b>AEMO Costs (AEMO<sub>y</sub>)</b> <b>2016 Determination Recoveries (K<sub>y</sub>)</b>
Treasurer's notice of Assessment Criteria	<b>Customer Impacts</b>