



1 April 2016

Mr Joe Dimasi
Tasmanian Economic Regulator
Office of the Tasmanian Economic Regulator
GPO Box 770
HOBART TAS 7001

Dear Mr Dimasi

RESPONSE TO STANDING OFFER PRICE STRATEGY CONSULTATION PAPER

Aurora Energy has reviewed the Consultation Paper released by the Tasmanian Economic Regulator (Regulator) on Aurora Energy's Draft Standing Offer Price Strategy (Strategy).

Aurora Energy acknowledges the feedback provided by stakeholder representatives at the tariff workshop hosted by your office on the Strategy. As a result of this feedback, Aurora Energy has a greater understanding of the time required to successfully implement a tariff setting framework that is well understood by key stakeholders.

Aurora Energy recognises a key principle of the Strategy, a proposed move from 'uniform price changes' to 'cost-reflective tariffs', is a significant step change for the Tasmanian electricity sector. This change will represent a notable shift for customers with regard to tariff price changes. Depending on the particular customer tariff, a change to tariffs to reflect the movement in pass-through costs will result in varying customer impacts compared to a uniform price increase.

To ensure there is adequate time for these changes to be communicated to customers, Aurora Energy recommends that the proposals within the Strategy for cost-reflective pricing be implemented from Period 2 of the 2016 Retail Price Determination (2016 Determination). This will allow for an extended period of consultation on the introduction of non-uniform price increases with stakeholders.

The Strategy principles that address the introduction of new tariffs and simplification of the current tariff schedule are still sought to be implemented from Period 1 of the 2016 Determination.

Noting the above proposal to delay the progression to a cost-reflective framework, the follow points should be considered as feedback on the Consultation Paper, in particular the Regulator's proposal to introduce a price cap.

*Aurora Energy Pty Ltd
ABN 85 082 464 622
21 Kirksway Place
GPO Box 191
Hobart Tasmania 7001
Telephone: 03 6237 3400
Facsimile: 03 6237 3444*

The inclusion of a price cap to either individual tariffs or tariff components as part of the setting of retail tariffs has the potential to result in two outcomes:

1. The Retailer's margin becomes constrained in passing through the underlying cost increases of the respective tariff which essentially reduces the profitability of the Retailer; or
2. The tariff change over and above the capped amount would need to be spread across other tariffs or tariff components which had not reached the capped amount.

The prospective requirement to use retail margin to compensate for financial losses incurred through under recovery threatens the financial sustainability of Aurora Energy. The Retailer has limited control over the underlying cost movements that feed into the Standing Offer tariffs. As such, the risk for Aurora Energy is that the underlying cost movements over and above the price cap is material and has a significant impact on the profitability of the business.

Further, price capping will constrain the ability to achieve cost-reflective tariffs for Tasmanian customers. An approach where the underlying cost increases over and above the capped amount are spread across other tariffs would present the same limitations as the current uniform price increase, and, would not allow the full price signal for each individual tariff component to reach the customer.

Given these issues, Aurora Energy does not support any form of price capping on retail tariffs. Aurora Energy's preference is for a set of criteria to be adopted that allows the Regulator to examine the overall price impacts to customers. Tariff approval criteria would set prices to promote economic efficiency through ensuring fixed costs are reflected in the fixed components of the retail price and variable costs are reflected in variable components.

Customer impacts from tariffs should be assessed as the total change to a customer's electricity bill, reflecting both the changes to fixed and variable tariff components, and the entire suite of tariffs that the customer may use. An example of this is Tariff 41 as this particular tariff has a relatively low variable rate and high fixed rate. Future changes to increase the variable rate of Tariff 41 may be offset by reductions in the fixed component. Overall, the increase in the individual tariff component may be higher than the capped amount, however, the customer may experience minimal impacts to the overall bill amount.

Aurora Energy provides the following points in response to other areas of feedback sought in the Consultation Paper:

- Aurora Energy agrees with the proposal from the Regulator for clarity in the Strategy that customers on Tariff 34 will remain on the tariff until they elect to move to an alternate tariff. Aurora Energy will ensure this commitment is clear in the Final Standing Offer Price Strategy.

- Aurora Energy supports applying a consistent approach to the approval of tariffs and suggests the approval of a new Standing Offer TOU tariff be undertaken on the same basis as the review and approval of the current schedule of tariffs. This will ensure that the Standing Offer TOU is price regulated and part of the ongoing set of tariffs that provides customers with the highest form of consumer protection.
- Aurora Energy's proposal for a demand based tariff to be approved from 1 July 2017 is solely based on the 'Residential time of use demand tariff' proposed by TasNetworks in its Tariff Structure Statement.
- For both Demand Based and Future Tariffs, Aurora Energy again suggests that there be a consistent approach to the approval of retail tariffs.
- For any tariff related change that arises from the Final Standing Offer Price Strategy, Aurora Energy commits to explaining all changes clearly and across multiple communication channels.

Aurora Energy notes that the Regulator's Final Price Determination on 29 April 2016 will set the framework for the Final Standing Offer Price Strategy to start from Period 1 of the 2016 Determination. As requested above, Aurora Energy is seeking the Regulator approve a Strategy that allows the introduction of new Standing Offer tariffs as well as simplification of the current Standing Offer tariff schedule.

Following the commencement of the 2016 Determination on 1 July 2016, Aurora Energy will liaise with Officers of the Tasmanian Economic Regulator on next steps for the development of a cost-reflective tariff setting framework for Tasmania.

Yours sincerely



Rebecca Kardos
Chief Executive Officer