



DRAFT GUIDELINE

**Approval of standing offer prices in
accordance with the 2013 Standing Offer
Determination**

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1 INTRODUCTION

1.1 Background

Standing offer prices are the prices that a regulated offer retailer may charge small customers on mainland Tasmania (including Bruny Island) for services provided under standard retail contracts.

This draft Guideline sets out the annual process under which the Regulator will adjust standing offer prices in line with the 2013 Standing Offer Determination.

Under the 2013 Standing Offer Determination, all Notional Maximum Revenue (NMR) components with the exception of the Cost to Serve and Retail Margin may be varied for each of Period 2 (1 July 2014 to 30 June 2015) and Period 3 (1 July 2015-30 June 2016).

That is, the following NMR components may be adjusted for Period 2 and Period 3 in accordance with the methodologies and processes outlined in the 2013 Standing Offer Determination and in this guideline:

- the notional tariff base (NTB) which includes the number of customers and their load;
- electricity loss factors when electricity is transmitted and distributed across the electricity network;
- the wholesale electricity price (WEP);
- network costs;
- Australian Energy Market Operator (AEMO) charges for market participation and ancillary services;
- renewable energy target (RET) costs.

Additionally, over or under recoveries from a previous period covered by the 2013 Standing Offer Determination in relation to changes in network costs, RET costs and AEMO charges attributable to the NTB may also be taken into account with the Regulator's approval.

The *Interim Price regulated Retail Service Price Determination* (2013 Standing Offer Determination) requires that:

Draft standing offer prices are to be submitted to the Regulator for approval in accordance with the *Electricity Supply Industry Act 1995* and the annual standing offer price approval process.

Under section 41 of the *Electricity Supply Industry Act 1995*, standing offer prices for small customers are not to be fixed unless a draft of the standing offer price has been approved by the Regulator.

This Guideline should be read in conjunction with the 2013 Standing Offer Determination, the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013* and the Electricity Supply Industry Act.

1.2 Purpose

This Guideline outlines the annual standing offer price approval process and sets out Aurora Energy Pty Ltd's obligations, and the Regulator's responsibilities, with respect to the 2013 Standing Offer Determination.

2 GUIDELINE

2.1 Application

This Guideline takes effect from the date of issue and applies to Aurora Energy in its capacity as Regulated Offer Retailer selling electricity to small customers on mainland Tasmania (including Bruny Island).

The Guideline ceases to have effect at the expiry of the 2013 Standing Offer Determination ie on 30 June 2016.

2.2 Interpretation

In this Guideline:

“Absolute Minimum Capacity Offer Volume” has the same meaning as in the Wholesale Contract Regulatory Instrument;

“Act” means the *Electricity Supply Industry Act 1995*;

“Aurora Energy Pty Ltd” means Aurora Energy Pty Ltd ABN 85 082 464 622 and its successors;

“Authorised Retailer” has the same meaning as it has in the *Electricity Supply Industry Act 1995*;

“charging parameters” of a standing offer price means the constituent elements of the standing offer price;

“Consumer Price Index” or “CPI” means the All Groups CPI index number for the weighted average of eight capital cities, published by the Australian Statistician under the *Census and Statistics Act 1905 (Cwlth)* as amended from time to time (if the ABS does not, or ceases to, publish the index, then CPI will mean an index determined by the Regulator);

“Load Following Swap” has the same meaning as in the Wholesale Contract Regulatory Instrument;

“Regulator” has the same meaning as in the *Economic Regulator Act 2009*;

“regulatory period” means the period from 1 January 2014 to 30 June 2016;

“relevant period” means each of the periods from 1 July 2014 to 30 June 2015 and 1 July 2015 to 30 June 2016 as relevant;

“remaining residual minimum offers” means the remaining Absolute Minimum Capacity Offer Volume contracts Hydro Tasmania is required to offer for each quarter in a period;

“small customers” has the same meaning as it has in the *Electricity Supply Industry Act 1995*;

“standing offer price” has the same meaning as it has in the *Electricity Supply Industry Act 1995*;

“Standing Offer Pricing Proposal” means the annual pricing proposal Aurora Energy is required to submit for the Regulator’s approval in accordance with the obligations set out in this guideline;

“typical customers” means a set of customers derived using the methodology described in the *Typical Electricity Customers Information Paper* issued by the Office of the Tasmanian Economic Regulator in August 2010 and as amended from time to time;

“Wholesale Contract Regulatory Instrument” means the instrument that specifies the regulated contracts Hydro Tasmania must offer to Authorised Retailers. The instrument is:

- (i) the approval made by the Minister for Finance on 29 July 2013 (as amended from time to time), in accordance with sections 43G and 43O of the *Electricity Supply Industry Act 1995* and Regulation 20 of the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*, having taken into account the principles set out in section 43H of the *Electricity Supply Industry Act 1995*; or
- (ii) the approval made by the Regulator (as amended from time to time), in accordance with section 43G of the *Electricity Supply Industry Act 1995*, having taken into account the principles set out in section 43H of the *Electricity Supply Industry Act 1995*.

“2013 Standing Offer Determination” means the Determination issued on 29 July 2013 and as amended by the Regulator in accordance with the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*.

2.3 Standing Offer Pricing Proposals

- (a) Aurora Energy must submit to the Regulator by 30 May in each year immediately before the start of the following financial year, a Standing Offer Pricing Proposal for the relevant period.
- (b) The Standing Offer Pricing Proposal must:
 - (1) set out the draft standing offer prices that are to apply for the relevant period;
 - (2) set out, for each draft standing offer price, the proposed charging parameters and the elements of service to which each charging parameter relates;

- (3) detail any amendments, variations or adjustments to the standing offer proposed, including any amendments to the terms and conditions that are to apply, and the justification for the proposed variations, adjustments and amendments and impacts, variations or adjustments;
 - (4) provide details of adjustments and the methodologies used for calculating those adjustments, including CPI, pass-through and other adjustments permissible under the 2013 Standing Offer Determination attributable to small customers for the relevant period and an explanation of how each standing offer price will be affected by the impact of the adjustment or adjustments;
 - (5) In the event the ABS changes the CPI index reference period, to maintain consistency, the applicable CPI under the new reference period must be converted back to the previous index period using conversion factors published by the ABS and rounded to one decimal place. The applicable CPI is to be calculated in accordance with clause 3 of the 2013 Standing Offer Determination and must be rounded to four decimal places;
 - (6) demonstrate compliance with:
 - (i) the 2013 Standing Offer Determination (including demonstrating that the expected revenue from the standing offer prices does not exceed the Notional Maximum Revenue for the relevant period); and
 - (ii) these Guidelines;
 - (7) describe the nature and extent of change from the previous period (where applicable);
 - (8) demonstrate the impact on typical customers; and
 - (9) be accompanied by an internal audit certificate and certified as correct by the Chairman and one other Director of Aurora Energy.
- (c) The Regulator will, after receiving Aurora Energy's Standing Offer Pricing Proposal, publish the proposal on the Regulator's website.

2.4 Methodology for estimating the Wholesale Electricity Price

- (a) The Regulator will adopt the following methodology in calculating the wholesale electricity price for each of Periods 2 and 3:
 - (1) weighting historical observable regulated Load Following Swap offer prices by past Absolute Minimum Capacity Offer Volumes each week;
 - (2) using the regulated Load Following Swap offer prices for each quarter for future prices at the point-in-time that the Regulator

calculates the WEP; and

- (3) weighting the prices observed in 2. by the remaining residual minimum offers per quarter.
- (b) The Regulator will provide, the wholesale electricity price calculated in accordance with the methodology outlined in clause 2.4(a) for the relevant period to Aurora Energy not less than seven days prior to 30 May in each year immediately before the start of the following financial year.

2.5 Methodology for revising the Notional Tariff Base

- (a) Aurora Energy is to adopt the following methodology in revising the Notional Tariff Base for Periods 2 and 3:
- (1) Period 2: the Regulator proposes adjusting Aurora's forecast NTB (not taking into account customer churn) for Period 2 downwards by 3.75 per cent to reflect the estimated rate of customer churn during Period 2; and
 - (2) Period 3: the Regulator proposes assessing Aurora's forecast NTB for Period 3 which would take into account expected customer churn rates for Period 3 based on Aurora's experience of the level of churn during Period 2.

2.6 Approval of standing offer prices

- (a) The Regulator may only approve a draft standing offer price if satisfied that:
- (1) the draft standing offer price complies with the 2013 Standing Offer Determination; and
 - (2) all forecasts and methodologies associated with the draft standing offer price are reasonable.
- (b) If the Regulator determines that the draft standing offer price is deficient:
- (1) within 10 days after receiving notice, Aurora Energy must resubmit the draft standing offer price, with the modifications necessary to correct the identified deficiencies and (unless the Regulator permits further modification) no further modification; or
 - (2) the Regulator may make the modifications necessary to correct the deficiencies.
- (c) If Aurora Energy fails to comply with a requirement under paragraph (b), or the resubmitted draft standing offer price fails to correct the deficiencies in the former draft standing offer price, the Regulator may amend the draft standing offer price so as it conforms with the requirements of this Guideline and the 2013 Standing Offer Determination.

- (d) An approved draft standing offer price takes effect at the commencement of the relevant period to which the draft standing offer price relates.

2.7 Publication of standing offer prices

- (a) In addition to any requirements imposed by the Electricity Supply Industry Act, Aurora Energy must maintain on its website:
 - (1) a statement of its approved standing offer price; and
 - (2) for each standing offer price – the terms and conditions and the charging parameters and the elements of the service to which each charging parameter relates.
- (b) The information specified in clause 2.7(a) must be posted on Aurora Energy’s website as soon as practicable, and, in any case, before 1 July of the relevant period.