



DRAFT GUIDELINE

Standing offer price approval process in accordance with the 2016 Standing Offer Determination

Issued: February 2016

Printed February 2016
Office of the Tasmanian Economic Regulator
Level 3, 21 Murray Street, Hobart TAS 7000
GPO Box 770, Hobart TAS 7001
Phone: (03) 6166 4422

ISBN 978-0-7246-5391-1

Copyright
© Office of the Tasmanian Economic Regulator

TABLE OF CONTENTS

1	BACKGROUND	3
2	PURPOSE	4
3	APPLICATION	5
4	INTERPRETATION	6
5	ANNUAL STANDING OFFER PRICE APPROVAL PROCESS	8
	5.1 STANDING OFFER PRICING PROPOSAL	8
	5.2 APPROVAL OF STANDING OFFER PRICES	9
6	PUBLICATION OF STANDING OFFER PRICES.....	10
7	STANDING OFFER PRICE STRATEGY	11
8	METHODOLOGIES.....	12
	8.1 ESTIMATING THE WHOLESALE ELECTRICITY PRICE	12
	8.2 REVISING THE NOTIONAL TARIFF BASE.....	12
	8.3 CALCULATING ADJUSTMENTS	12

1 BACKGROUND

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

The 2016 Standing Offer Determination states that maximum standing offer prices must be determined with reference to a notional maximum revenue calculated in accordance with the Determination.

The 2016 Standing Offer Determination requires draft standing offer prices 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 or amended by the retailer unless a draft of the standing offer prices has been approved by the Economic Regulator.

Under the 2016 Standing Offer Determination the retail margin component of the Notional Maximum Revenue is fixed for the regulatory period while the following components may be varied for each period in accordance with the methodologies and principles specified in the Determination and in this guideline:

- the notional tariff base (NTB);
- Distribution loss factor (DLF) and Marginal loss factor (MLF);
- the wholesale electricity price (WEP);
- cost to serve;
- over or under recoveries for pass through costs from a previous period covered by the 2013 Standing Offer Determination (CF);
- under and over recoveries for pass through costs from previous periods in the 2016 Standing Offer Determination (K)
- network costs (NC);
- adjustments (A);
- Australian Energy Market Operator (AEMO) charges for market participation and ancillary services; and
- renewable energy target (RET) costs.

This Guideline should be read in conjunction with Aurora Energy's Standing Offer Price Strategy, the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*, the *Electricity Supply Industry Act 1995* and the 2016 Standing Offer Determination.

2 PURPOSE

This Guideline sets out the annual standing offer price approval process for determining standing offer prices in accordance with the 2016 Standing Offer Determination.

3 APPLICATION

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

The Guideline ceases to have effect at the expiry of the 2016 Standing Offer Determination ie on 30 June 2019.

4 INTERPRETATION

In this Guideline:

“2013 Standing Offer Determination” means the standing offer determination made by the Regulator on 29 July 2013 as amended from time to time;

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

“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*;

“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 it has in the Wholesale Contract Regulatory Instrument;

“Notional Maximum Revenue” means the notional maximum revenue approved by the Regulator under the 2016 Standing Offer Determination for the relevant period;

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

“regulatory period” means the period from 1 July 2016 to 30 June 2019;

“relevant period” means each of the periods from 1 July 2016 to 30 June 2017, 1 July 2017 to 30 June 2018 and 1 July 2018 to 30 June 2019 as relevant;

“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 price approval process” means the annual standing offer price approval process set out in this Guideline;

“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;

“Standing Offer Price Strategy” means Aurora Energy’s 2016 Standing Offer Price Strategy;

“typical customers” means a set of customers derived using the methodology described in the *Typical Electricity Customers Information Paper* released 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 the approval made by the Minister for Finance or 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*.

“2016 Standing Offer Determination” means the Determination issued on 5 February 2016 and as amended by the Regulator in accordance with the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*.

5 ANNUAL STANDING OFFER PRICE APPROVAL PROCESS

5.1 Standing Offer Pricing Proposal

- (a) Aurora Energy must submit a Standing Offer Pricing Proposal for the relevant period to the Regulator by 30 May in each year.
- (b) The Standing Offer Pricing Proposal must:
 - (1) set out for each tariff the draft standing offer prices that are proposed to apply for the relevant period;
 - (2) set out and describe the tariffs and charges that will apply for the relevant Period, including the terms and conditions that will apply to each tariff and charge.
 - (3) detail any proposed changes to the tariffs and charges including any changes to the terms and conditions that are to apply, provide justification for the proposed changes variations, and detail the impacts of the proposed changes on typical customers;
 - (4) provide details of the methodologies used for calculating those changes, including CPI, pass-through and other adjustments permissible under the 2016 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 changes;
 - (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 2016 Standing Offer Determination and must be rounded to four decimal places;
 - (6) demonstrate compliance with:
 - (i) the 2016 Standing Offer Determination (including demonstrating that the expected revenue from the standing offer prices when applied to the tariffs and NTB for the relevant period does not exceed the Notional Maximum Revenue for the relevant period);
 - (ii) this Guideline; and
 - (iii) the principles, criteria and requirements set out in the Standing Offer Price Strategy; and

- (7) 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.

5.2 Approval of standing offer prices

- (a) The Regulator will only approve a draft standing offer prices if satisfied that:
 - (1) the draft standing offer prices comply with the 2016 Standing Offer Determination;
 - (2) the draft standing offer prices comply with the Standing Offer Price Strategy; and
 - (3) all forecasts and methodologies used to determine the draft standing offer price are reasonable.
- (b) If the Regulator determines that the draft standing offer prices are deficient:
 - (1) Aurora Energy must resubmit the draft standing offer price within the requested timeframes 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; or
 - (3) the Regulator may refuse to approve the draft standing offer price or the draft amendment of the standing offer price.
- (c) If Aurora Energy fails to comply with a requirement under paragraph (b)(1), 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, the Standing Offer Price Strategy and the 2016 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.

6 PUBLICATION OF STANDING OFFER PRICES

- (a) In addition to any requirements imposed by the *Electricity Supply Industry Act 1995*, Aurora Energy must maintain on its website:
 - (1) a schedule of approved tariffs, standing offer prices and other charges;
and
 - (2) terms and conditions relating to each standing offer price and terms and conditions relating to other charges.
- (b) The information specified in clause 2.8(a) must be posted on Aurora Energy's website as soon as practicable, and, in any case, before 1 July of the relevant period.

7 STANDING OFFER PRICE STRATEGY

- (a) Aurora Energy must prepare a final Standing Offer Price Strategy that takes account of any submissions received by the Economic Regulator during consultation on the draft Standing Offer Price Strategy.
- (b) Aurora Energy must submit its final Standing Offer Price Strategy to the Regulator by 30 May 2016.
- (c) If the Economic Regulator determines that the final Standing Offer Price Strategy is deficient:
 - (1) Aurora Energy must resubmit the Strategy 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.

8 METHODOLOGIES

8.1 Estimating the Wholesale Electricity Price

- (a) The Regulator will adopt the following methodology in calculating the wholesale electricity price for each of Periods 1, 2 and 3:
 - (1) for each week of each quarter of the relevant period multiply the regulated Load Following Swap offer price by the applicable Absolute Minimum Capacity Offer Volume for that quarter
 - (2) for future prices use the regulated Load Following Swap offer prices at the point-in-time that the Regulator calculates the WEP; and
 - (3) sum the values calculated in clause 1.7(a)(1) and divided by sum of the Absolute Minimum Capacity Offer Volumes for each week of each quarter of the relevant period.
- (b) The Regulator will provide to Aurora Energy, not less than seven days prior to 30 May in each year immediately before the start of the following financial year, the wholesale electricity price calculated in accordance with the methodology outlined in clause 1.7 (a) for the relevant period.

8.2 Revising the Notional Tariff Base

- (a) The following methodology is to be adopted in revising the Notional Tariff Base for Periods 1, 2 and 3:
 - (1) Period 1: the Regulator will assess Aurora Energy's forecast NTB for Period 1 taking into account the actual change in customer numbers for the previous 12 months;
 - (2) Period 2: the Regulator will assess Aurora Energy's forecast NTB for Period 2 taking into account the actual change in customer numbers for the previous 12 months; and
 - (3) Period 3: the Regulator will assess Aurora Energy's forecast NTB for Period 3 taking into account the actual change in customer numbers for the previous 12 months.

8.3 Calculating adjustments

- (a) The following methodology is to be adopted in calculating an adjustment under Regulation 12 or 16 of the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*:
 - (1) if the adjustment is due to an error, the adjustment is to be calculated with reference to the impact of the error on the NMR ie the NMR will be

recalculated incorporating the correct component but with all other components held constant. The difference between the original NMR and the recalculated NMR will be the value of the adjustment; and

- (2) in all other cases, the adjustment is to be calculated using a methodology approved by the Regulator.