



AURORA ENERGY PTY LTD

INTERIM PRICE-REGULATED RETAIL SERVICE PRICE DETERMINATION

Issued: 29 July 2013

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The Tasmanian Economic Regulator –

- (a) having conducted an investigation under Regulation 7 of the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013* into the maximum prices that may be charged by Aurora Energy under standard retail contracts in respect of small customers; and
- (b) having complied with the *Electricity Supply Industry Act 1995* and Regulations 8(2) and 8(3) of the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*;

makes the following Determination under section 40AA of the *Electricity Supply Industry Act 1995*.

Dated: 29 July 2013



Peter Hoult
Acting Chairman
TASMANIAN ECONOMIC REGULATOR

PART 1 – PRELIMINARY

Commencement date, effective date and expiry date

1. In accordance with Regulation 8(3) of the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*, this Determination takes effect on 1 January 2014 and remains in effect to 30 June 2016.

Interpretation

2. (a) Words have the same meaning as defined in this determination. Expressions not defined in this determination have the same meaning as they have in the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013* and the *Electricity Supply Industry Act 1995*.

(b) In this Determination –

“**AEMO**” means the Australian Energy Market Operator ABN 94 072 010 327;

“**AEMO charges**” mean the annual charges imposed on National Energy Market participants by AEMO;

“**adjustment**” has the same meaning as it has in the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*;

“**annual standing offer price approval process**” means the process outlined in any guideline issued by the Regulator relating to the approval of standing offer prices under this Determination;

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

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

“**CPI**” (Consumer Price Index) means the All Groups CPI index number for the weighted average of eight capital cities, published by the Australian Bureau of Statistics under the *Census and Statistics Act 1905 (Cwlth)* (as amended from time to time);

“**curtilage discount**” means the annual discount available under Tariff 22 in respect of fixed daily charges for the second and subsequent connection points on a single farm house block;

“**GWh**” means gigawatt-hour (one gigawatt-hour is equivalent to 1 000 megawatt-hours or 1 000 000 kilowatt-hours);

“**Hydro Tasmania**” means Hydro-Electric Corporation (ARBN 072 377 158);

“**interim pricing period**” means the period commencing on 1 January 2014 to 30 June 2016;

"kVA" means KiloVolt-Ampere (kVA measures the apparent energy being consumed and is used to measure demand);

"kWh" means a kilowatt hour, the amount of energy used at a constant rate of one kilowatt for one hour (one kilowatt-hour is equivalent to 1 000 watt hours);

"MW" means megawatt;

"MWh" means megawatt hour (one megawatt-hour is equivalent to 1 000 kilowatt-hours);

"network tariff" means the applicable schedule of tariffs (including the rate or rates) as approved by the Australian Energy Regulator, Aurora Energy uses to calculate the amount it charges customers, or a class of customers, for network services and metering services, as amended from time to time;

"notional maximum revenue" means Aurora Energy's notional maximum revenue as calculated for each of Period 1, Period 2 and Period 3 in accordance with the formula in clause 7;

"notional tariff base" means the components detailed in Table 1 and in Schedule 2 (as adjusted by the annual standing offer price approval process);

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

"Period 1" means the period commencing on 1 January 2014 to 30 June 2014;

"Period 2" means the period commencing on 1 July 2014 to 30 June 2015;

"Period 3" means the period commencing on 1 July 2015 to 30 June 2016;

"prescribed inflationary factor" has the same meaning as it has in clause 3 of this Determination;

"regional reference node" has the same meaning as it has in the National Electricity Rules;

"Regulator" means the Tasmanian Economic Regulator, established under the *Economic Regulator Act 2009*;

"retail margin" means the Regulator's allowance to compensate Aurora Energy for its investment in the business and the risks it assumes in providing standard retail services to small customers;

"Retail Tariff Strategy" means Aurora Energy's *Final Revised Retail Tariff Strategy* (April 2011) approved by the Regulator in June 2011;

"standard retail contract" has the same meaning as it has in the *Electricity Supply Industry Act 1995*;

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

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

“wholesale electricity price” means the Regulator’s estimate of the price **Aurora Energy** pays to purchase electricity for the purpose of providing standard retail services to small customers; and

“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*.

Prescribed inflationary factor

3. For the purposes of this Determination, the prescribed inflationary factor is to be calculated as follows:

$$(a) \text{ Period 2} = \left(\frac{\text{CPI}_{\text{Mar}2014} + \text{CPI}_{\text{Dec}2013} + \text{CPI}_{\text{Sep}2013} + \text{CPI}_{\text{Jun}2013}}{\text{CPI}_{\text{Mar}2013} + \text{CPI}_{\text{Dec}2012} + \text{CPI}_{\text{Sep}2012} + \text{CPI}_{\text{Jun}2012}} \right)$$

$$(b) \text{ Period 3} = \left(\frac{\text{CPI}_{\text{Mar}2015} + \text{CPI}_{\text{Dec}2014} + \text{CPI}_{\text{Sep}2014} + \text{CPI}_{\text{Jun}2014}}{\text{CPI}_{\text{Mar}2013} + \text{CPI}_{\text{Dec}2012} + \text{CPI}_{\text{Sep}2012} + \text{CPI}_{\text{Jun}2012}} \right)$$

The subtext (for example, ‘CPI_{Mar 2014}’) when used in relation to the above means the CPI for the March quarter in year 2014.

PART 2 – MAXIMUM PRICES

Calculation of maximum prices

4. The maximum prices which may be charged by Aurora Energy in respect of standard retail services provided to small customers under standard retail contracts during the term of this Determination are to be calculated in accordance with the principles outlined in clause 6. For the avoidance of doubt, the maximum prices calculated in accordance with clause 6 of this determination do not include the late payment fees and interest on overdue accounts listed in Table 9 of Schedule 1.

Approval of standing offer prices under this Determination

5. 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.

Notional Maximum Revenues

6. (a) In Period 1, for the purposes of this clause and clause 7, the notional tariff base consists of the components detailed in Schedule 2.
- (b) In Period 2 and Period 3 for the purposes of this clause and clause 7, the notional tariff base will be adjusted in accordance with revised forecasts of the notional tariff base as part of the annual standing offer price approval process for each relevant period.
- (c) The maximum prices Aurora Energy may charge small customers are to be determined in accordance with the principle that if each price was applied to each component of the notional tariff base, the result must not exceed the notional maximum revenue calculated in accordance with clause 7.
- (d) The maximum prices determined under clause 6(c) are subject to clauses 8, 9 and 10.
7. For the purposes of clause 4 and clause 6, the notional maximum revenue (NMR_y) for Period 1, Period 2 and Period 3 is calculated in accordance with the following formula:

$$NMR_y = (R_y + NC_y + AEMO_y + RET_y + K_y + A_y) \times (Margin_y)$$

Where:

NMR_y is the notional maximum revenue for the notional tariff base as specified in Table 1 (as adjusted by the annual standing offer price approval process)

and

y is the relevant period (i.e. Period 1, Period 2 or Period 3)

$$R_y = [\text{forecast small customer load}_y \times \text{MLF}_y \times \text{DLF}_y] \times [\text{wholesale electricity price}_y] + [\text{cost to serve}_y \times \text{forecast number of small customers}_y]$$

where: the forecast small customer load_y and forecast number of small customers_y for the notional tariff base, for Period 1, are as set out in Table 1.

Table 1: Notional tariff base - forecast small customer loads and small customer numbers

	Period 1	Period 2	Period 3
Small customer load _y (GWh)	930.00	2 081.65	2 060.68
Small customers _y (number)	231 786	229 626	227 815

The customer numbers and load for Periods 2 and 3 will be revised based on updated forecasts during the annual standing offer price approval process for each of those periods.

MLF_y means the load weighted average marginal loss factor at the regional reference node for Tasmania for the relevant period as approved by the Regulator.

DLF_y means the load weighted average distribution loss factor for the relevant period as approved by the Regulator.

cost to serve_y means the amount estimated to be the cost to serve each small customer during each period as presented in Table 2, escalated by the appropriate prescribed inflationary factor.

Table 2: Cost to serve_y (real 2012-13\$)

	Period 1	Period 2	Period 3
cost to serve _y (\$/customer)	58.12	152.00	152.00

The cost to serve allowance will not be adjusted as part of the annual standing offer price approval process.

wholesale electricity price_y means, for Period 1, the price as set out in Table 3. The Regulator will estimate revised wholesale electricity prices for Period 2 and Period 3 during the annual standing offer price approval process to account for the difference between the forecast wholesale electricity prices for Period 2 and Period 3 outlined in Table 3 and the revised prices calculated for those periods in accordance with a methodology that complies with the principles contained within the Wholesale Contract Regulatory Instrument.

Table 3: Wholesale electricity price, (nominal\$)

	Period 1	Period 2	Period 3
wholesale electricity price (\$/MWh)	74.97	62.62	59.95
wholesale electricity price_y (c/kWh)	7.4970	6.2623	5.9949

NC_y means the network costs as set out in Table 4 for Period 1 derived by multiplying network tariffs_y by the notional tariff base_y. The Regulator will estimate revised network costs for Period 2 and Period 3 during the annual standing offer price approval process to account for the difference between the forecast network costs for Period 2 and Period 3 outlined in Table 4 and the revised costs calculated for those periods.

Table 4: Network costs (nominal\$)

	Period 1	Period 2	Period 3
Network costs (\$/MWh)	134.71	136.30	141.65
Network costs_y (\$m)	125.28	283.72	291.90

AEMO_y means the forecast charges, as billed by AEMO for market participation and ancillary services for Period 1 as set out in Table 5. The Regulator will estimate revised AEMO charges for Period 2 and Period 3 to account for the difference between the forecast AEMO charges for Period 2 and Period 3 outlined in Table 5 and the updated forecasts during the annual standing offer price approval process for each of those periods.

Table 5: Forecast AEMO charges (nominal\$)

	Period 1	Period 2	Period 3
AEMO (\$/MWh)	1.16	1.19	1.22
AEMO_y (\$m)	1.08	2.47	2.51

RET_y means the forecast cost of complying with the Australian Government's mandatory renewable energy schemes for Period 1 as set out in Table 6. The Regulator will estimate revised RET costs for Period 2 and Period 3 to account for the difference between the forecast RET costs for Period 2 and Period 3 outlined in Table 6 and the updated forecasts during the annual standing offer price approval process for each of those periods.

Table 6: Forecast RET costs (nominal\$)

	Period 1	Period 2	Period 3
RET (\$/MWh)	7.45	7.61	8.20
RET_y (\$m)	6.92	15.85	16.90

A_y is an adjustment calculated in accordance with a methodology approved by the Regulator consistent with Regulation 12 and Regulation 16 of the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*.

K_y means over or under recoveries from a previous period covered by this Determination in relation to changes in network costs, RET costs and AEMO charges attributable to the notional tariff base as approved by the Regulator.

Margin_y means the factor applied to total costs in each period as set out in Table 7.

Table 7: Margin

	Period 1	Period 2	Period 3
Margin (nominal \$/MWh)	11.61	13.14	13.34
Margin_y	1.0485	1.057	1.057

The retail margin factor will not be adjusted as part of the annual standing offer price approval process.

SCHEDULE 1 – STANDING OFFER PRICE STRUCTURE

Table 8: Prices

Tariffs	Category	Description
31	Residential	Residential Light and Power
41	Residential	Hot Water
42	Residential	HydroHeat (hot water and space heating)
61	Residential	Off-Peak afternoon boost
62	Residential	Off-Peak night only
22	Business	General
34	Business	Nursing Home light and power
36C	Business	Curtilage discount (Tariff 22)
43	Business	Institutional hot water
73	Business	Irrigation low rate
74	Business	Irrigation high rate
75	Business	Irrigation (Time-of-Use)
82	Business	Monthly kVA demand low voltage
83	Business	Industrial kW demand low voltage
85	Business	Monthly kVA demand high voltage
86	Business	Industrial kW demand high voltage

Table 9: Charges

Charge	Amount/Calculation	Description
<u>Late payment fee</u>	\$5	<u>Late payment fee for accounts not paid in full by the fifth day past the due date.</u>
<u>Interest on overdue accounts</u>	$[(N/365) \times I] \times O$	<u>Interest calculated on overdue accounts where.</u> <u>N = the number of days the account is overdue</u> <u>I = the Commonwealth Bank of Australia Corporate Overdraft Reference Rate as at 1 July 2013 for Period 1, 1 July 2014 for Period 2 and 1 July 2015 for Period 3. The Regulator may approve a replacement interest rate should the Commonwealth Bank of Australia Corporate Overdraft Reference Rate be renamed or replaced by another bank product.</u> <u>O = the overdue amount</u>

SCHEDULE 2 – NOTIONAL TARIFF BASE BY PERIOD

SCHEDULE 2(a) – NOTIONAL TARIFF BASE PERIOD 1: 1 JANUARY 2014 TO 30 JUNE 2014

Tariff	Energy Step 1	Energy Step 2	Energy Step 3	Energy Peak	Energy Shoulder	Energy OffPeak	Total Billing Days	Demand Step 1
22	14 482 685	167 836 800					5 159 858	
31	330 081 504						35 367 509	
34	11 599	11 565	243 886				3 534	
36C							912 500	
41	95 454 218						12 479 613	
42	256 887 192						19 998 773	
43	4 791 016						233 367	
61	23 795 099						2 994 795	
62	3 500 660						359 085	
73	14 691 568						486 317	
74	11 861 342						485 777	
75								
82	3 197 311						17 072	4 200
83	3 107 392						18 995	2 754
85	12 198						180	
86	32 079						379	15

Note: condition (d) under Tariff 22 is to reflect a curtilage discount of 40 per cent to the standard daily charge.
Tariff 36C reflects the billing days for customers eligible for this discount under Tariff 22.

SCHEDULE 2(b) – NOTIONAL TARIFF BASE PERIOD 2: 1 JULY 2014 TO 30 JUNE 2015

Tariff	Energy Step 1	Energy Step 2	Energy Step 3	Energy Peak	Energy Shoulder	Energy OffPeak	Total Billing Days	Demand Step 1
22	29 893 559	375 104 960					10 222 731	
31	740 718 448						70 067 722	
34	17 321	17 244	554 152				7 060	
36C							1 825 000	
41	214 203 065						24 723 776	
42	576 466 903						39 620 212	
43	10 599 356						464 909	
61	53 356 400						5 933 806	
62	7 794 626						712 376	
73	32 601 672						967 211	
74	26 356 849						966 116	
75								
82	7 026 608						34 140	7 642
83	6 844 694						38 093	3 315
85	26 601						365	
86	71 214						751	116

Note: condition (d) under Tariff 22 is to reflect a curtilage discount of 30 per cent to the standard daily charge.
 Tariff 36C reflects the billing days for customers eligible for this discount under Tariff 22.

SCHEDULE 2(c) – NOTIONAL TARIFF BASE: PERIOD 3: 1 JULY 2015 – 30 JUNE 2016

Tariff	Energy Step 1	Energy Step 2	Energy Step 3	Energy Peak	Energy Shoulder	Energy OffPeak	Total Billing Days	Demand Step 1
22	29 671 621	368 715 620					10 132 660	
31	734 804 494						69 508 399	
34	17 239	17 163	540 992				7 024	
36C							1 825 000	
41	212 492 281						24 526 421	
42	571 864 300						39 303 938	
43	10 387 640						462 092	
61	52 896 972						5 886 688	
62	7 682 548						707 030	
73	32 041 670						960 792	
74	25 933 571						959 697	
75								
82	6 849 361						33 978	7 031
83	6 666 795						37 949	3 050
85	25 758						365	
86	70 015						745	107

Note: condition (d) under Tariff 22 is to reflect a curtilage discount of 20 per cent to the standard daily charge.
 Tariff 36C reflects the billing days for customers eligible for this discount under Tariff 22.

PART 3 – MISCELLANEOUS PROVISIONS

Curtilage discount

8. Aurora Energy is required to provide curtilage discounts in each period as set out in Table 810.

Table 810: Curtilage discounts

	Period 1	Period 2	Period 3
Curtilage discount (%)	40	30	20

Tariff schedule and pricing structure

9. The pricing structure adopted by Aurora Energy for its standing offer prices is to be consistent with the standing offer tariff types listed in Table 8 in Schedule 1 of this Determination for the duration of the interim pricing period.

10. Aurora Energy is required to maintain, in its standing offer prices, the relativities that existed as at 1 July 2013 (as detailed in the Retail Tariff Strategy) between fixed and variable charges and between residential and business tariffs for the duration of the interim pricing period.

Interpretation of the Determination and Administration

11. Any question arising from the interpretation of this Determination shall be determined by the Regulator.

12. This Determination is administered by the Regulator.

