



AURORA ENERGY PTY LTD

PROPOSED INTERIM PRICE-REGULATED RETAIL SERVICE PRICE DETERMINATION

Issued
29 July 2013

As amended – November 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) Unless the contrary intention appears, an expression used in this Determination has the same meaning as it has in the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*.

(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.

“**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 as specified in Schedule 1 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);

“**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, the regulated offer retailer 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;

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

“**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 regulated offer retailers. The instrument is a set of approvals made by the Minister for Finance on 29 July 2013, 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 ESI Act.

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.

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 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)	1 008.73	2 232.09	2 204.44
Small customers _y (number)	214 861	212 834	211 135

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)	60.80	139.55	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_y (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)	130.54	133.02	138.50
Network costs_y (\$m)	131.68	296.92	305.31

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 3 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)	1.17	2.65	2.68

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)	7.51	16.99	18.08

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)	11.92	12.30	13.03
Margin_y	1.051	1.055	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

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
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22	Business	General
34	Business	Nursing Home light and power
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

SCHEDULE 2 – NOTIONAL TARIFF BASE BY PERIOD

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

RESIDENTIAL	Energy - Step 1 kWh	Energy - Step 2 kWh	Energy - Step 3 kWh	Demand kW/kVA	Billing Days
Tariff					
31	358 153 675				34 387 626
41	100 542 417				12 017 278
42	282 052 359				20 304 284
61	26 121 547				2 541 084
62	3 840 382				338 702
BUSINESS	Energy - Step 1 kWh	Energy - Step 2 kWh	Energy - Step 3 kWh	Demand kW/kVA	Billing Days
Tariff					
22 ¹	21 033 073	177 652 527			5 785 052
34	13 419	13 320	266 037		1 638
43	5 260 137				225 134
73	15 018 843				451 906
74	11 911 065				460 460
75					8 190
82	3 450 465			632	9 282
83	3 368 469			543	15 834
85					182
86	35 651			15	364

Note 1: condition (d) under Tariff 22 is to reflect a curtilage discount of 40 per cent to the standard daily charge.

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

RESIDENTIAL	Energy - Step 1 kWh	Energy - Step 2 kWh	Energy - Step 3 kWh	Demand kW/kVA	Billing Days
Tariff					
31	794 682 000				67 940 277
41	222 043 000				23 742 761
42	626 964 000				40 115 553
61	58 023 000				5 020 467
62	8 470 000				669 179
BUSINESS	Energy - Step 1 kWh	Energy - Step 2 kWh	Energy - Step 3 kWh	Demand kW/kVA	Billing Days
Tariff					
22 ²	46 248 804	390 633 196			11 408 867
34	29 381	29 163	582 456		3 236
43	11 527 000				444 802
73	32 526 000				892 839
74	25 733 000				909 739
75					16 181
82	7 353 000			626	18 338
83	7 166 000			538	31 283
85					360
86	78 000			15	719

Note 2: condition (d) under Tariff 22 is to reflect a curtilage discount of 30 per cent to the standard daily charge.

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

RESIDENTIAL	Energy - Step 1 kWh	Energy - Step 2 kWh	Energy - Step 3 kWh	Demand kW/kVA	Billing Days
Tariff					
31	785 005 000				67 923 607
41	220 269 000				23 739 455
42	621 958 000				40 084 775
61	57 522 000				5 023 763
62	8 349 000				668 842
BUSINESS	Energy - Step 1 kWh	Energy - Step 2 kWh	Energy - Step 3 kWh	Demand kW/kVA	Billing Days
Tariff					
22 ³	45 456 116	383 937 884			11 396 574
34	28 694	28 481	568 826		3 243
43	11 301 000				444 611
73	31 402 000				890 969
74	24 759 000				907 863
75					16 181
82	6 984 000			621	18 369
83	6 797 000			533	31 275
85					362
86	78 000			14	719

Note 3: condition (d) under Tariff 22 is to reflect a curtilage discount of 20 per cent to the standard daily charge.

PART 3 – MISCELLANEOUS PROVISIONS

Curtilage discount

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

Table 8: 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 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 exist 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

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

This Determination is administered by the Regulator.