2016 STANDING OFFER PRICE DETERMINATION

Final Standing Offer Price Strategy

May 2016

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EXECUTIVE SUMMARY

Standing Offer tariffs are a critical component of a consumer's supply of electricity. The price, terms and conditions of a tariff can have a significant impact to consumers, particularly through the cost of a consumer's bill and their ability to reduce their electricity costs.

As part of the 2016 Retail Price Determination, currently being conducted by the Regulator, a Standing Offer Price Strategy is required to be submitted for regulatory approval. This Strategy will set the broad parameters for how Aurora Energy is permitted to amend, introduce and rebalance retail tariffs across the three-year Determination Period.

Given the majority of Tasmanian electricity consumers, including residential and small business consumers, take their electricity through a Standing Offer tariff, the Standing Offer Price Strategy will have the potential to impact a large number of Tasmanians.

Aurora Energy is highly aware of the impact that its approach to retail tariffs can have on consumers as well as the importance of retail tariffs for all stakeholders in the Tasmanian electricity sector. Implementing an appropriate Standing Offer Price Strategy for Tasmania will ensure that adequate protection is provided to all Tasmanian consumers.

Over the period of the 2016 Determination, there will be significant changes made to the National Electricity Market (NEM) through the implementation of the Australian Energy Market Commission's (AEMC) Power of Choice reforms. These changes will reshape the operation of the NEM to re-orientate how consumers choose and use electricity. Adopting a status quo approach to retail tariff setting will constrain the ability for Tasmania to realise the benefits of these reforms, and, will be ineffective in providing sufficient protection to Tasmanian consumers as products and services evolve.

A key enabler of these reforms will be the transition to cost reflective tariffs to ensure consumers are able to adequately receive price signals with respect to their consumption behaviours. Future consumer choices to relocate or reduce electricity consumption in response to price signals will have the potential to result in financial and environmental benefits for consumers.

Aurora Energy's overall objective in proposing a Standing Offer Price Strategy is to set current and new tariffs with a goal of providing fair and transparent tariffs for Tasmanian electricity consumers. To achieve this, Aurora Energy has adopted the following three key principles to guide the Standing Offer Price Strategy across the 2016 Determination period:

- enhance consumer understanding of tariffs through a simplified and transparent Tariff Schedule;
- commit to incrementally adjust tariffs to reflect the underlying input costs of their provision; and

- propose new tariffs in response to market developments to ensure Tasmanians are afforded a standing offer tariff schedule that allows customers an opportunity to reduce their home and business electricity bills.

Table 1 outlines the implementation schedule for the Standing Offer Price Strategy across the three-year period of the 2016 Determination.

Table 1: Standing Offer Price Strategy implementation schedule

Determination Period	Standing Offer Price Strategy Principles		
	Transparency & Simplicity	Cost Reflective	New Tariff Proposals
Period 1 (July 2016 – June 2017)	• Abolish obsolete Tariffs 73/74, 83 and 86 • Tariff 34 to be made obsolete • Consolidate Tariffs 41 and 42 • Curtilage discount to reduce from 20% to 10% • Alignment of Standing Offer tariff Terms and Conditions with Network Tariffs	**To commence from Period 2**	• Introduce Residential and Small Business Time of Use (ToU) Tariffs
Period 2 (July 2017 – June 2018)	• Assess requirement to make any tariffs obsolete • Abolish Tariff 34 • Curtilage discount to be removed. • Alignment of Standing Offer tariff Terms and Conditions with Network Tariffs	• Price movements in pass-through costs applied to individual tariff components • Minor rebalancing at a maximum rate of 1.5%	• Introduce Residential and Small Business Demand ToU Tariffs • Potential introduction of emerging trend based Tariff
Period 3 (July 2018 – June 2019)	• Alignment of Standing Offer tariff Terms and Conditions with Network Tariffs	• Price movements in pass-through costs applied to individual tariff components • Minor rebalancing at a maximum rate of 1.5%	• Potential introduction of emerging trend based Tariff

The only change to the implementation schedule in this Final Strategy compared to Aurora Energy's Draft Standing Offer Price Strategy, is the deferral of the commencement of the move from uniform price changes to non-uniform price changes (ie cost-reflective tariffs) from Period 1 (1 July 2016) to Period 2 (1 July 2017). Aurora Energy proposed, and the Regulator approved, this change on the basis that it will allow Aurora Energy additional time to undertake further consultation with stakeholders on the impact of the change.

1 INTRODUCTION

On 30 September 2015, Aurora Energy provided its Retail Price Submission on electricity prices set to apply under the 2016 Standing Offer Determination. As part of the 2016 Standing Offer pricing investigation, a Standing Offer Price Strategy was required to be submitted.

In the consideration and approval of a Standing Offer Price Strategy for Aurora Energy, the Regulator has set the broad parameters for how Aurora Energy is permitted to amend, introduce and rebalance retail tariffs across the three-year Determination Period. Tariffs are the mechanism by which consumers pay for their consumption and by which the retailer recovers the cost to provide electricity to the consumer. Accordingly, Aurora Energy is highly aware of the impact that electricity tariffs can have on consumers and their importance for all stakeholders in the Tasmanian electricity sector.

Through its pricing, billing and customer notices, Aurora Energy also serves as the primary communicator of tariffs. This responsibility includes evolving tariffs which reflect changes to market and consumer needs.

As such, Aurora Energy's Standing Offer Price Strategy balances the need for an efficient tariff framework with appropriate levels of consumer protection while ensuring retailer sustainability.

This paper outlines the key factors underpinning Aurora Energy's Standing Offer Price Strategy including state and national regulation, emerging market developments and, importantly, the type of consumer it will be applied to. The Standing Offer Price Strategy is then outlined in detail.

2 REGULATORY CONTEXT

2.1 TASMANIAN REGULATION

The regulatory framework overseeing the development and approval of tariffs for Tasmania has changed considerably since the 2010 Determination. The 2016 Standing Offer Determination will be the first to be considered in a fully contestable Tasmanian electricity market. Since 1 July 2014, alternative retailers to Aurora Energy have been able to offer Tasmanian households and small businesses market based electricity contracts.

Despite significant reforms in the broader regulatory framework in Tasmania, there has been limited change to the schedule of tariffs over the past two decades. Predominantly, any amendment has been applied to tariffs at a distinct consumer class, (e.g. irrigation tariffs), while the major tariff classes of 'light and power', 'business' and 'off-peak' have remained unchanged in terms of their structure and operation. As a result, the Standing Offer tariff schedule for the regulatory period ending 30 June 2016 broadly reflects an energy market of the past and has not kept pace with market changes and alternate tariffs that enable consumers to respond and manage their energy needs.

The 2010 Determination was the last Determination in which Aurora Energy was permitted to submit a tariff strategy. Within the 2013 Determination, under which Aurora Energy is currently operating, the Tariff Schedule has not been open to amendment during the Annual Price Proposal process. This has meant that the Tariff Schedule has remained unchanged during this period, and uniform price increases across all tariff classes and components have been applied since this time. This ruling was established in the context of the then State Government's intention to divest Aurora Energy's customers to two new competing retailers. The decision not to approve changes to the Annual Price Proposal process was a means to provide price protection for consumers against the new (and unknown) Retailers entering the market.

As a result, the Standing Offer Tariff Schedule for the regulatory period ending 30 June 2016 includes obsolete tariffs and does not reflect Tasmanian and National market reforms and developments.

Following the abandonment of the retail sale in November 2013, and the requirement for Aurora Energy to continue providing retail services, the 2013 Determination was redesigned as a result of Aurora Energy remaining as the Regulated Offer Retailer in Tasmania. The inclusion of a Standing Offer Price Strategy for the 1 July 2016 to 30 June 2019 regulatory period effectively closes out this period of reform.

2.2 NATIONAL REGULATION

The introduction of a national regulatory framework for energy retailers has seen the core consumer protection framework for consumers significantly revised to align with jurisdictions that operate in a fully competitive retail environment. The *National Energy Retail Law* (NERL), overseen by the Australian Energy Regulator (AER), now covers key regulatory functions such as licensing, compliance and enforcement, and consumer protection.

The national regulatory framework for retailers was applied to Tasmania to recognise the presence of full retail competition across National Electricity Market (NEM) jurisdictions and the consequential burden of inconsistent regulatory frameworks on national energy retailers.[1] Under the NERL, Aurora Energy is obligated to offer small consumers a 'Standard Retail contract' that is based on a Standing Offer price.

[1] http://www.scer.gov.au/files/2012/05/Final-AEMA-as-amended-Oct-2011.pdf

As the 'Regulated Offer Retailer' for Tasmania, Aurora Energy has responsibilities to all Tasmanian electricity consumers and the broader market that are additional to those that other retailers entering the Tasmanian market will incur. The most significant of these obligations, in the context of this Standing Offer Price Strategy, is the requirement to make available a Standard Retail Contract to all residential and small business consumers in Tasmania.

3 EMERGING MARKET DEVELOPMENTS

At the time of preparing this Price Strategy substantial developments were underway through components of the Australian Energy Market Commission's (AEMC) Power of Choice reforms. These reforms will have wide reaching impacts across the electricity industry with an objective to provide consumers options in the way they use electricity. Two of the AEMC's recommendations that directly relate to the Standing Offer Price Strategy and consumer tariffs are:

1. the reform of distribution network pricing principles to improve consumer understanding of cost reflective Network Tariffs, providing consumers more opportunity to benefit from changing their consumption behaviour; and

2. the expansion of competition in metering and related services to all consumers, putting greater discipline on competitive metering suppliers to provide services at efficient cost and consistent with consumer preferences.

These reforms are designed to reshape the operation of the NEM to re-orientate how both large and small consumers choose and use electricity, and to promote greater levels of efficiency within Australia's distribution and transmission networks. Importantly, both reforms are set to be implemented during the 2016 Determination period.

3.1.1 Reform of Distribution Pricing Principles

Reforms to the National Electricity Rules that commenced on 1 December 2014 focused on new 'Distribution Network Pricing Arrangements'.[2] Network companies, such as TasNetworks, are required to restructure their prices to ensure that they reflect the true costs of providing electricity to consumers. By sending price signals to consumers through cost reflective network tariffs, the reforms aim to minimise the future level of capital investment required for the Network, and as a result, realise a more efficient, incentive-based network regulation framework. In communicating the changed approach for network businesses, the AEMC noted:

[2]http://www.aemc.gov.au/getattachment/de5cc69f-e850-48e0-9277-b3db79dd25c8/Final-determination.aspx

"Two households might look the same, with similar incomes and family size, but because of the appliances they have and the different lifestyles they lead, they will consume electricity in very different ways."[3]

TasNetworks has already commenced its process towards network tariff reform with the release of its *Tariff Structure Statement 2016*.[4]

As network prices are only applied to small consumers through a retail tariff, the realisation of the benefits from the AEMC changes to the National Electricity Rules are dependent on Standing Offer tariffs being able to reflect network price signals in all its tariffs.

3.1.2 Metering Competition

The proposed mandated roll-out of interval meters across Tasmania, as a result of the Power of Choice reforms, will result in a gradual shift in the type of products and pricing structures that will be available to consumers. As these different pricing structures and products evolve, it is critical that the Tasmanian regulatory framework is able to adapt to these changes and ensure there are no unintended consumer outcomes resulting from such an extensive structural reform.

The Power of Choice reforms position the market to cope with emerging technologies such as electric vehicles, embedded generation and battery storage. The uptake of these technologies will represent a fundamental shift in the provision of energy towards its use as a means of exchanging energy from multiple sources, rather than the traditional model of networks transporting energy to consumers from large scale generation sources. The 2016 Determination will provide an opportunity to ensure consumers are provided sufficient protection and choice in response to the evolution of products and technologies outlined in the Power of Choice reforms.

4 CONSUMERS, COMPETITON & CHOICE IN TASMANIA

The majority of Tasmanian small business and residential consumers are on a Standing Offer tariff. Even in the circumstance of a consumer choosing a different product, such as Pay-as-you-Go (APAYG), at some point a consumer may need to access a Standing Offer tariff from Aurora Energy.

With active competition yet to be fully realised in Tasmania, Aurora Energy's customers are dependent upon Standing Offer tariffs as the primary method in which their electricity supply is priced and delivered. The development of full retail competition in Tasmania is still

[3]http://www.aemc.gov.au/getattachment/b1e53b72-5175-438e-8890-d6ce96ecacbf/News-announcement-(general-and-business).aspx
[4] http://www.aer.gov.au/node/42762

within its infancy when compared to mainland markets. This nascent stage requires a heavy reliance by consumers and retailers on basic regulatory mechanisms, particularly Standing Offer tariffs.

Markets such as Victoria that have been open to full retail competition since 2002[5] have progressed through multiple stages of price reform to a point where price regulation is no longer applied. Victoria has world leading churn rates with 7,939,674 consumers transferred in the NEM to date.[6] The annualised rate of transfer for Victoria ranges from 25-30% of the entire market and there are over twenty retailers competing across its five network jurisdictions, all providing extensive choice and competition. The majority of consumers that churn to another retailer in Victoria do so based on the consumer agreeing to a market offer from the new retailer. However, even with the high-levels of churn and the amount of time since the Victorian market has been open to competition, a large percentage of Victorian consumers have not taken up a market offer and have chosen to remain 'off contract' and continue to take supply on the equivalent of a Standing Offer product.

By comparison, Tasmania has a churn rate of less than 1% and this has been restricted to the business segment of the market. There is no active competition in the residential market and consequently, only APAYG customers are on market contracts of the total Tasmanian residential consumer base. Clearly, Tasmania is very much at the start of the journey to developing fully effective retail competition. In this context, Standing Offer tariffs must be relied upon to deliver sector reform. This is on the basis that:

- There may not be the appetite from the consumer to enter into a market contract. For some consumers, the Standing Offer contract is preferable on the basis that it is set by the Regulator and includes the level of consumer protection that may not always be present in market contracts.

- Further, due to the specific characteristics of that consumer, a Retailer may not consider it appropriate to offer a consumer a market contract as they do not meet specified eligibility criteria, e.g. the consumer may have a poor credit rating or a poor payment history.

These points have relevance for Tasmania given its relatively low socio-economic status.[7]

[5] http://www.esc.vic.gov.au/getattachment/cac8db17-9233-4db9-a355-d8f7bb0e190a/Electricity-Retail-Progress-Competition-Research-P.pdf

[6] http://www.aemo.com.au/Electricity/Data/Metering/Retail-Transfer-Statistical-Data

[7] Commonwealth Grants Commission, 'Measuring Socio-Economic Status' Discussion Paper CGC 2012-03, August 2012

Given the transitional nature of the Tasmanian market and lack of competition in the residential sector, the majority of Tasmanian consumers are likely to remain on standing offer tariffs for some time. Importantly, when competition does materialise, it is unreasonable to assume that all consumers will take up a market offer, or be offered a market offer. Market offers from retailers will vary from contract to contract with differing eligibility criteria, terms for payment, billing and service.

Based on the above factors, Aurora Energy has developed an approach to the Standing Offer Price Strategy that ensures tariffs meet the evolving needs of consumers whilst reflecting market signals and providing appropriate levels of consumer protection.

5 STANDING OFFER PRICE STRATEGY OBJECTIVES & PRINCIPLES

The key objective of Aurora Energy's Standing Offer Price Strategy is to set existing and new tariffs to ensure they become progressively cost reflective and are easy to understand

Importantly, a market-relevant Standing Offer Price Strategy will enable Aurora Energy to provide modern retail tariffs that provide consumers with choice and security when selecting product options. This objective aligns with the Tasmanian Government's Energy Strategy to provide consumers with greater choice about how they meet their electricity supply needs. This also aligns with the objectives of broader market reforms, such as price signals through network charges or significant market reforms derived from the Power of Choice reforms.

Aurora Energy has developed three key principles for its Standing Offer Price Strategy to reflect these objectives and guide (future) annual proposals within the 2016 Determination period:

- **Transparent and Simpler to Understand:** the ability to amend Standing Offer tariffs to ensure they are relevant, market compliant and reflect terms and conditions of underlying Network Tariffs;
- **Progression to Cost Reflective Standing Offer Tariffs:** the ability to incrementally rebalance Standing Offer tariffs including relativities between fixed and variable, between residential and business, and between tariffs to take into account changes in supply costs; and
- **New Tariff Proposals**: the ability to propose new Standing Offer tariffs to reflect new market signals to ensure customers are provided greater opportunities to reduce their home and small business electricity bills.

6 FUTURE STANDING OFFER TARIFFS

The following are the proposed directions, movements and outcomes for tariffs across the 2016-19 regulatory- period based on the three key principles outlined in Section 5.

6.1 TRANSPARENCY AND SIMPLICITY

A consumer's ability to manage their electricity expenditure is enhanced through gaining an understanding of the tariff that is applied to their premise. To achieve this, the basic presentation and communication of a tariff must be understandable and relevant. Aurora Energy's Standing Offer Price Strategy seeks to realise this outcome through providing a schedule of tariffs that reflect underpinning network tariffs as well as Australian Energy Regulator (AER) initiatives designed to ensure Standing Offer tariffs are easily comparable with other products.

A simple and transparent tariff schedule can be achieved through removal of obsolete tariffs, alignment of network terms and conditions, and updating Tasmanian tariffs to align with the requirements of the AER's Retail Price Information Guideline.

6.1.1 Obsolete tariffs to be abolished

Obsolete or 'grandfathered' tariffs are those that consumers are unable to access, primarily as the underpinning Network Tariff is no longer offered by TasNetworks.

Over time, consumers begin to move away from obsolete tariffs to a point where there are no longer any consumers on these arrangements. At this point, with no active consumers and no possibility for consumers to connect to them, for simplicity and transparency purposes, it is ideal to 'abolish' these obsolete tariffs.

Under the 2013 Determination, Aurora Energy has been unable to abolish the following Standing Offer tariffs which have been made obsolete:

- Tariff 73/74 – Irrigation;
- Tariff 83 – Industrial Low Voltage Demand; and
- Tariff 86 – Industrial High Voltage Demand.

There are no longer any consumers supplied electricity under these tariffs and the corresponding rates and charges are no longer published. The tariff names are only published on the Tariff Schedule for information purposes, as no new consumers can connect to them. Aurora Energy therefore seeks to abolish Tariff 73/74, Tariff 83 and Tariff 86 from Period 1 of the 2016 Determination (1 July 2016) by removing all references to these tariffs from the Aurora Energy Standing Offer Tariff Schedule.

Aurora Energy does not intend to make obsolete any of the primary residential and small business tariffs (Tariffs 31, 41 and 22) during the term of the 2016 Determination.

6.1.2 Tariff 42 - Heating discount consolidation

To support the principle of making tariffs transparent and simpler to understand, from Period 1 of the 2016 Determination (1 July 2016), Aurora Energy proposes to consolidate Tariffs 41 and 42 as these tariffs are priced at the same rate and both align to the same Network Tariff (TAS41).

This proposal would take effect through the transition of all Tariff 42 consumers onto Tariff 41 and result in the abolishment of Tariff 42 from Period 1 of the 2016 Determination (1 July 2016). The consumer impacts of this change are limited to a change in the tariff name that customers currently on Tariff 42 view on their bill. To support this change, Aurora Energy proposes to proactively communicate to all impacted customers.

6.1.3 Tariff to be made obsolete: Tariff 34 – Nursing Homes Light and Power

The underlying Network Tariff for Tariff 34, TAS34, is an obsolete Network Tariff, meaning no new connections are allowed on this Network Tariff. Therefore, to align the terms of the Standing Offer tariff to the underlying Network Tariff, Aurora Energy proposes to make Tariff 34 obsolete from Period 1 of the 2016 Determination (1 July 2016).

Aurora Energy would not seek to abolish Tariff 34 until such time that all consumers have transitioned to an alternate electricity tariff. Until there are no longer any customers on Tariff 34, it will remain on the Aurora Energy Standing Offer tariff schedule along with full details of charges and associated terms and conditions.

6.1.4 Continuation of curtilage discount

Aurora Energy proposes that the longstanding curtilage discounts continue to be offered. The rate of the curtilage discount was reduced from 30% to 20% of the Tariff 22 daily charge from 1 July 2015. In continuation of the current approach to curtilage discounting, Aurora Energy proposes that, during the first period of the 2016 Determination, the discount rate be reduced from 20% to 10% with the discount set to be removed entirely for the second period of the 2016 Determination.

6.1.5 Align Standing Offer terms and conditions with Network Tariffs

To ensure that Standing Offer Tariffs are transparent and simpler for consumers to understand, Aurora Energy proposes amending the terms and conditions of Standing Offer tariffs in each period of the Determination to ensure they are consistent with the terms and conditions of the underlying Network Tariffs, on which they are based.

The wording of terms and conditions of Network Tariffs have been amended over a number of years and as a result of the current constraint in Aurora Energy's ability to amend the structure of Standing Offer tariffs, the expression of terms and conditions between retail and network tariffs are inconsistent. For example, Aurora Energy's Tariff 22 does not reflect the Network Tariff condition to note it as a tariff explicitly for low voltage installations.

Following the approval of 2016-17 Network Tariffs, including terms and conditions, by the AER in its determination, Aurora Energy will propose amendments to Standing Offer tariff terms and conditions for Period 1 of the 2016 Determination (1 July 2016) in its 2016-17 Pricing Proposal as part of the Pricing Proposal Process in May-June 2016.

6.1.6 Presentation of tariffs: AER alignment

In presenting tariffs to consumers, Aurora Energy is subject to both the Tasmanian regulatory framework and the National Energy Retail Law overseen by the AER.

The AER has recently amended its *Retail Price Information Guideline 2015* (AER Guideline) that details the method in which prices must be presented to consumers.[8] Amongst other changes, the amendments detail a number of tariff terms that the AER now declares as 'prohibited'. The intent of the AER Guideline is to ensure price related information is easy to understand and comparable across multiple retailers and mediums.

Aurora Energy has identified within the current Standing Offer Tariff Schedule a number of terms that need to be updated to ensure the terminology used by Aurora Energy aligns with the amended AER Guideline. For example, the AER has now stated the term 'fixed charges' is prohibited and that the term 'daily standing charges' is to be used. Below in Table 2 is a list of prohibited and suggested alternative terms (as per the revised AER Guideline):

Table 2: AER Retail Price Guideline prohibited terms

Prohibited Terms	Required Terms
Unconditional / Non Conditional Discount	Guaranteed Discount
Early Termination Fee	Exit Fee
Consumption	Usage
Standing/Fixed Charge	Daily Supply Charge
Fixed Term	Contract Term / Length
Evergreen	Ongoing Contract With Benefit Period
Fixed Benefit Period	Benefit Period

During the Annual Standing Offer Price Approval process, Aurora Energy will present its Tariff Schedule for approval in line with the AER Guideline.

[8] http://www.aer.gov.au/retail-markets/retail-guidelines/retail-pricing-information-guidelines-2015

6.2 PROGRESSION TO COST REFLECTIVE STANDING OFFER TARIFFS

As highlighted in the Regulator's *Investigation to determine maximum standing offer prices for small customers on mainland Tasmania Final Report* (May 2016), electricity retailers incur a number of costs over which they have no control and which are passed through directly to consumers.[9] As referenced at section 2.1, the current Annual Price Proposal process provides for the increase in supply costs, from one period to the next, to be recovered proportionally across all tariffs, and all components of tariffs (i.e. fixed and energy charges). Essentially, this means that there is a disconnect between the existing Retail Tariff Schedule, and the supply costs that directly relate to them. These costs include network charges, renewable energy certificates and market charges amongst others.

The inability to pass-through costs directly through individual tariff and tariff components, presents a number of challenges to Aurora Energy and the market as a whole. When retail tariffs are established without direct correlation to how relevant input costs feed into them, they become arbitrary, unsustainable and potentially lead to perverse outcomes. A disconnection between input costs and retail tariffs results in the Retailer unfairly subsidising other parts of the supply chain.

Additionally, the transition to cost reflective tariffs is an important mechanism to achieve some of the objectives of broader market reforms. The aim of reducing capital investment in Distribution and Transmission Networks through cost reflective Network Tariffs can only be realised if those price signals reach consumers.

For consumers, cost-reflective tariffs can provide both a financial and energy efficiency reward. With price signals to consumers to use electricity at different times, they will be provided an opportunity to take up potentially cheaper tariff choices and lower the burden on peak demand periods. Further, a greater focus and awareness on energy consumption from a motivated and engaged consumer is likely to lead to lower consumption levels and to reward that consumer for its energy consumption behaviour.

Aurora Energy proposes an incremental transition to cost reflective tariffs, recognising that the movement in input costs per year varies from tariff to tariff. Aurora Energy will seek to ensure tariffs are sustainable and progressively become more reflective of actual supply costs. This will be done in two steps:

1. Through a changed Notional Maximum Revenue (NMR) methodology for consumer tariffs that ensures a uniform price change is no longer applied across all retail tariffs

[9] http://www.energyregulator.tas.gov.au/domino/otter.nsf/LookupFiles/161179_20160505_2016_Investigation_to_Determine_Maximum_Standing_Offer_Prices_for_Small_Customers_on_Mainland_Tasmania_Final_Report_May_2016.PDF/$file/161179_20160505_2016_Investigation_to_Determine_Maximum_Standing_Offer_Prices_for_Small_Customers_on_Mainland_Tasmania_Final_Report_May_2016.PDF p.59

and their components. Rather, price movements for individual components are passed-through (Section 6.2.2) specific to the underlying price movements associated with each tariff; and

2. An incremental rebalancing to each component of each tariff to address disparities in tariffs created during previous regulatory periods through a 'side constraint' methodology (Section 6.2.3).

To ensure there is adequate time for these changes to be communicated to customers, Aurora Energy will implement cost-reflective pricing to existing tariffs from Period 2 of the 2016 Determination. Uniform price changes will therefore continue to apply for Period 1 of the 2016 Determination This will allow for an extended period of consultation with stakeholders on the introduction of non-uniform price increases.

The Regulator will assess proposed uniform price changes in accordance with the criteria outlined in Clause 5.1(b)(1) of the Regulator's Guideline, *Standing offer price approval process in accordance with the 2016 Standing Offer Determination* (28 April 2016).

The Regulator will also assess proposed non-uniform price changes in accordance with the criteria outlined in Clause 5.1(b)(2) of the Regulator's Guideline, *Standing offer price approval process in accordance with the 2016 Standing Offer Determination* (28 April 2016).

The following sections outline the impacts from the 2013 Standing Offer Determination based on current and future network pricing outcomes. The proposal for a revised methodology for calculation of the NMR and the proposed approach to tariff rebalancing through the application of a side constraint methodology is also presented.

6.2.1 2013 Determination impacts on cost reflective tariffs

The current tariffs for 2015-16 were set under the terms of the 2013 Standing Offer Determination. Section 10 of this Determination prescribed that:

> *"Aurora Energy is required to maintain, in its standing offer prices, the relativities that existed as at 1 July 2013 between fixed and variable charges and between residential and business tariffs for the duration of the interim pricing period."*

This restriction has required Aurora Energy to apply the average movement in its total NMR in January 2014, July 2014 and July 2015 evenly across all tariff components.

Consequently, 'price signals' to consumers that reflect actual movement in supply costs for particular tariffs across residential and business segments have been muted. This constraint is evidenced in Table 3 below.

Table 3 illustrates that Network Tariffs have increased at rates that reflect changes between fixed and variable rates as well as changes between residential and small business tariffs.

However, the corresponding price change in Standing Offer tariffs and tariff components has moved at the average change of NMR, rather than reflecting the underlying movement in Network Tariffs.

Table 3: Network Tariff vs. Standing Offer price movement

Tariff		Price change since 1 July 2014			
		Network Price Change %		Standing Offer Price Change %	
		Fixed (Daily charge)	Variable (Energy)	Fixed (Daily charge)	Variable (Energy)
Residential	**31**	16.00%↑	0.34%↑	(5.86%)↓	(5.86%)↓
	41/42	16.00%↑	10.93%↑	(5.86%)↓	(5.86%)↓
Business	**22**	16.00%↑	0.34%↑	(5.86%)↓	(5.86%)↓

Section 9 of the 2013 Determination additionally prescribed that:

> "…the pricing structure adopted by Aurora Energy for its Standing Offer prices was to be consistent with the tariff types listed in Table 8 in Schedule 1 of the Determination for the duration of interim pricing period."

This obligation has constrained Aurora Energy's ability to amend the structure of the Standing Offer tariffs to truly reflect Network Tariffs, including the consolidation of existing tariffs and the introduction of any new Standing Offer tariffs. This has resulted in consumers no longer receiving the intended price signals that have been set through the Network Tariff structure.

The Proposed Tariff Strategy developed by TasNetworks for its next distribution regulatory control period (1 July 2017 to 30 June 2019) is broadly grouped into two areas:

1. transitioning existing Network Tariffs to be more cost reflective; and,
2. offering new demand-based Network Tariffs as a choice for consumers. [10]

If existing Network Tariffs are approved by the AER to transition to a more cost reflective basis, the portion of network revenue recovered from residential consumers is forecast by TasNetworks to increase from 55% in 2015-16 to 59% by the end of 2018-19. Further, the portion of network revenue recovered from small business consumers is forecast by TasNetworks to reduce from 30% to 29% over the same period. If the relevant retail tariffs are not able to reflect these changes in network recoveries, then small business consumers will further subsidise the residential consumer tariffs. This cross-subsidy is an unintended consequence of the current restrictions placed on the Standing Offer tariff schedule.

[10] https://www.tasnetworks.com.au/TasNetworks/media/pdf/customer-engagement/Improving-the-way-we-price-our-services-network-tariff-Consultation-paper-31-10-15.pdf

In addition to rebalancing network tariffs between consumer classes, TasNetworks is seeking to also change the contribution of each residential Network Tariff component between 2015-16 and 2018-19. Table 4 illustrates the estimated change in network tariff component contribution (fixed and variable) to residential network tariff revenue across varying levels of consumer consumption by TasNetworks.

Table 4: Estimated Change in Residential Network Tariff Contribution 2015-16 to 2018-19*[11]

Network Tariff	Network Tariff Component	Change in Contribution %		
		Low Usage	**Medium Usage**	**High Usage**
TAS31	**Fixed (Daily charge)**	8.8% ↑	11.0% ↑	10.0% ↑
	Variable (Energy)	(22.0%) ↓	(16.9%) ↓	(17.0%) ↓
TAS41	**Fixed (Daily charge)**	No Change	No Change	No Change
	Variable (Energy)	42.0% ↑	38.0% ↑	38.0% ↑

* These changes do not reflect expected movement in retail Standing Offer Tariffs

The inability to alter the fixed and variable components of the respective retail tariffs, will result in retailers attempting to recover fixed networks charges through variable retail charges from consumers.

The potential for retailers to incur an imbalanced portion of network fixed charges supports a case for the progressive rebalancing of small business and residential Standing Offer tariffs. To guide the Regulator in assessing the impact of tariff rebalancing, Aurora Energy proposes a methodology for calculation of the NMR and the application of side constraints that would allow for a managed transition towards a cost reflective Standing Offer Tariff Schedule.

6.2.2 STEP 1 - Annual NMR Calculation for setting of tariffs

Consistent with the principle that over time that tariffs progressively become more cost reflective, Aurora Energy seeks to ensure that Standing Offer tariffs move to reflect the annual change in underlying supply costs.

This capability will assist in accommodating shifts in the underlying structure of Network Tariffs over the length of the 2016-19 regulatory period as well as accounting for changes in other variable inputs such as wholesale electricity costs and Renewable Energy Certificates (RECs).

[11] http://www.aer.gov.au/system/files/TasNetworks%20%20-%20Indicative%20Pricing%20Schedule%20-%2029%20January%202016.pdf

To transition to cost reflective tariffs, Aurora Energy proposes the following process of determining changes in tariffs that will allow for each component of an input to be recognised in a Standing Offer tariff:

- Calculation of the NMR for each year using the formula set out in the 2016 Determination.
- Having established the NMR for each year, the overall change in Standing Offer prices is calculated by the application of prices to the forecast consumption and billing days to provide aggregate revenues.
- To ensure that prices progressively move to be cost reflective, it is proposed that the year to year movements in Standing Offer tariff fixed and energy components reflect the annual movements in the respective fixed and variable supply costs and allowances for each particular tariff as set out below:
    - Cost To Serve (CTS): Year to year movement in CTS allowance to be applied across fixed charge components;
    - Wholesale Electricity Costs (WEC): Year to year movement in WEC allowance to be applied evenly across all energy charge components of Standing Offer tariffs;
    - Renewable Energy (REC) Costs: Year to year movement in REC allowance to be applied evenly across all energy charge components of Standing Offer tariffs;
    - Australian Energy Market Operator (AEMO) Costs: Year to year movement in AEMO allowance to be applied evenly across all energy charge components of Standing Offer tariffs;
    - Prior Period Cost Adjustments (CF_y and K_y): Any prior period adjustments are proposed to be applied evenly across all energy charge components of Standing Offer tariffs;
    - Metering Charges: Year to year movement in Metering Charges to be applied across fixed charge components;
    - Network Charges: Year to year movements in Network tariffs are proposed to be applied to both fixed and energy components of Standing Offer Tariffs. These movements are to be applied individually for each Standing Offer Tariff component based on the specific movement in the respective Network Tariff components that underpin each Standing Offer tariff; and
    - Margin: Year to year movements to be applied across fixed and variable charge components.
- Where any Standing Offer tariff shows a reduction in margin whereby the retail margin for that tariff becomes negative (i.e. results in the Retailer making a loss on that

particular tariff), the prices for that tariff should be adjusted (increased) to provide a positive margin. This process will cause the aggregate notional revenue to exceed the NMR, so compensating decreases in prices of some of the positive margin tariffs will be required to remain within NMR limits.

It should be noted that a tariff may produce a negative margin when it has become disconnected from the underlying movement in a corresponding Network Tariff that is the primary input cost.

Table 5 below summarises how movements in supply costs are proposed to be applied on the fixed and energy charge component in line with the methodology.

Table 5: Supply cost movement allocation to Standing Offer Tariff components

Supply Costs	Standing Offer Tariff Component	
	Fixed (Daily charge)	Energy (Variable)
Cost-To-Serve	✓	
Wholesale Electricity Costs		✓
RET Costs		✓
AEMO Costs		✓
Prior Period Costs		✓
Metering Charges	✓	
Network Charges	✓	✓
Retail margin	✓	✓

Table 6 below provides an illustrative example where changed input cost components in the form of fixed and variable charges of Network tariffs are directly passed through to their corresponding retail tariffs.

Table 6: Illustrative Network Charge input costs directly applied to retail tariffs

Tariff	Current Standing Offer Price		Annual Network Price Movement		Revised Standing Offer Price		Standing Offer Price Change	
	Fixed c/day	Energy c/kWh	Fixed c/day	Energy c/kWh	Fixed c/day	Energy c/kWh	Fixed	Energy
Tariff X	81.26	22.91	2.28	(0.67)	83.54	22.24	2.8%	(2.9%)
Tariff Y	15.74	13.82	0.25	0.10	15.99	13.91	1.6%	0.7%

In Table 6, the illustrative change in input costs for the Network Charges (both the fixed and energy components) is applied directly to the specific Retail Tariff. In this example, this has resulted in:

- a 2.8% increase in the fixed component of Tariff X;
- a (2.9%) decrease to the energy component of Tariff X;
- a 1.6% increase to the fixed component of Tariff Y; and
- a 0.7% increase to the fixed component of Tariff Y.

This methodology contrasts significantly from the current Annual Price Proposal process whereby the movement to each tariff would be the total movement in NMR that would be applied evenly across the tariff schedule.

6.2.3 STEP 2 - Tariff Rebalancing

Given that there has been a sustained period of uniform price increases across tariffs, the current Tariff Schedule (i.e. 2015-16 tariff prices) is no longer reflective of the associated supply costs. Aurora Energy asserts, to achieve a cost reflective tariff structure for Tasmania, it must be able to address the impact of the legacy process of applying uniform price increases across all tariffs.

In addition to the methodology outlined at Section 6.2.2, Aurora Energy intends, commencing in Period 2 to undertake a level of tariff rebalancing as part of each Annual Standing Offer Price Approval process. This can be achieved with the introduction of a 'side constraint' with the purpose of ensuring that the magnitude of rebalancing that can occur for any tariff, or any component of a tariff (i.e. fixed or energy), can be no greater than 1.5% per annum.

Table 7 below provides an example, following on from Table 6, of how the 'side constraint' would work in practice.

Table 7: Illustrative application of side constraint to Tariff movements

Tariff	Revised Standing Offer Price before Rebalancing		Tariff Rebalancing		Final Standing Offer Price		Overall Standing Offer Price Change	
	Fixed c/day	Energy c/kWh	Fixed	Energy	Fixed c/day	Energy c/kWh	Fixed	Energy
Tariff X	83.54	22.24	**1.0%**	**(2.0%)**	84.38	21.80	3.8%	(4.9%)
Tariff Y	15.99	13.91	**1.5%**	**(0.5%)**	16.23	13.84	3.1%	0.1%

In the above example, Aurora Energy applied a rebalancing percentage to each component of each tariff where required, restricted to a maximum increase of 1.5% to any component. There is no restriction proposed on the level of price decrease that can occur.

In addition to the movements outlined in Table 6, the rebalancing illustrated in Table 7 results in a total price change of:

- a 3.8% increase in the fixed component of Tariff X;
- a (4.9%) decrease to the energy component of Tariff X;
- a 3.1% increase to the fixed component of Tariff Y; and
- a 0.1% increase to the fixed component of Tariff Y.

The side constraint is set at a low level of 1.5% to ensure an approach to rebalancing that does not disadvantage consumers. The constraint will progressively take Standing Offer tariffs towards cost reflectivity although this will be an incremental path and likely to take two successive price determination periods to achieve.

Aurora Energy notes that these estimates of likely rebalancing may change subject to the impact of the AER's approval of Network Tariffs and the Regulator's subsequent approval of Aurora Energy's NMR for each year of the 2016-19 regulatory period .

Aurora Energy considers that its proposed side constraint methodology provides adequate protection to consumers, whilst progressively achieving the outcome of transitioning to cost reflective tariffs.

As noted in section 6.2 of this document, both proposed uniform, and proposed non-uniform, price changes will be assessed against the relevant criteria outlined in Clause 5.1 of the Regulator's Guideline, *Standing offer price approval process in accordance with the 2016 Standing Offer Determination* (28 April 2016).

6.3 INTRODUCTION OF NEW TARIFFS

6.3.1 Time-of-Use Standing Offer Tariff

During the 2016-19 regulatory period, Aurora Energy intends proposing new residential and small business Time-of-Use (ToU) Standing Offer tariffs to take effect from 1 July 2016. These tariffs will be in addition to the existing Standing Offer tariffs.

A key driver for the introduction of a ToU tariff is to afford all Tasmanian consumers the opportunity to reduce their electricity bills through gaining a greater level of control of their electricity consumption. Tariffs with rates at a reduced level in different time periods are designed to encourage consumers to 'shift' the period of their consumption, typically through an observable price incentive.

Aurora Energy is aware of the development of a wide range of new technologies such as in-home energy management systems and battery storage devices that can provide further opportunities for consumers to use electricity in lower rate periods. These energy management systems generally encourage consumers to use energy in different ways and at different times of a day. Tariffs that record electricity in multiple periods, whether peak, shoulder and off-peak, or more, are the expected pricing structures to accompany new technology.

As highlighted in Section 4, the instrument for enabling control of a consumer's electricity usage in Tasmania is a standing offer tariff. Tasmania is the only NEM jurisdiction without a fall back or Standing Offer ToU tariff available to the broader electricity consumer market. By way of example in one of the remaining jurisdictions to have price regulation, there are six Standing Offer ToU tariffs available and many demand based tariffs.[12]

Aurora Energy proposes that all new tariffs are to be regulated tariffs and considered under the same methodology proposed in Section 6.2 of this Standing Offer Price Strategy. Specifically, new tariffs must reflect the NMR calculation methodology as tariffs change between periods across the three-year Determination. For clarity, this approach will ensure any new tariff is subject to the same assessment framework as existing tariffs and any constraints on price changes will also apply to any new tariff/s.

In particular, the Regulator will assess the proposed introduction of new tariffs in accordance with the criteria outlined in Clause 5.1(b)(3) of the Regulator's Guideline, *Standing offer price approval process in accordance with the 2016 Standing Offer Determination* (28 April 2016).

To provide a representation of likely consumer impacts arising from the introduction of these new tariffs, Aurora Energy has developed conceptual residential and small business ToU tariffs based on the NMR for Period 3 of the current 2013 Determination. These are outlined in Table 8 below.

Table 8: Conceptual Residential and Business ToU Tariffs based on 2015-16 Pricing

Tariff	Fixed c/per day	Peak c/per kWh	Shoulder c/per kWh	Off-peak c/per kWh
Residential ToU	98.000	25.612	19.152	10.237
Small Business ToU	108.000	25.887	20.466	11.062

Aurora Energy's modelling indicates residential consumers may benefit by between 1.68% and 5.8% depending on their level and timing of consumption. For residential consumers, this is based on:

12 http://www.qca.org.au/getattachment/ff9dae82-2d93-4c67-b618-2b4d11275707/Gazette-Notice-18-June-2015.aspx

- low, medium and high consumption residential consumers on tariffs 31 and 42, as per the Regulator's *Typical Electricity Consumers* information paper issued in May 2014[13];
- a consumption profile consistent with the Tasmania Net System Load Profile (NSLP); and
- the current 2015-16 prices for Tariffs 31 and Tariff 42.

Aurora Energy's modelling indicates small business consumers may benefit by between 13.24% and 21.74% depending on their level and timing of consumption. For small business consumers, this is based on:

- low, medium and high consumption small business consumers on Tariff 22, as per the Regulator's *Typical Electricity Consumers*[14] information paper issued in May 2014;
- a consumption profile consistent with the Tasmania NSLP; and
- the current 2015-16 prices for Tariff 22.

Following the approval of allowances to apply for Standing Offer consumers by the Regulator and the approval of Network Tariffs by the AER, Aurora Energy will develop and submit proposed residential and small business ToU tariffs for Period 1 under the 2016 Determination.

Aurora Energy notes that in the TasNetworks *Network Tariff Application and Price Guide 2016-17, s*ubmitted to the AER in April 2016, the Residential low voltage ToU tariff (TAS93) proposed is based on two time periods, peak and off-peak with no shoulder period proposed. It is also noted that the Business low voltage ToU tariff (TAS94) proposed by TasNetworks includes three time periods, peak, shoulder and off-peak.

Aurora Energy is committed to maintaining consistency with network tariffs and as part of the Annual Standing Offer Price Approval process Aurora Energy will present for approval:

- a Standing Offer Residential ToU tariff based on TAS93 with two time periods; and,
- a Standing Offer Business ToU tariff based on TAS94 with three time periods.

Each ToU tariff will reflect the terms and conditions proposed by TasNetworks and clearly state both tariffs are available on an opt-in basis for customers that do not currently have installed at their premises a meter established to provide a time-of-use tariff.

[13] http://www.energyregulator.tas.gov.au/domino/otter.nsf/LookupFiles/Typical_Electricity_Customer_Information_Paper_Web_version_140603.pdf/$file/Typical_Electricity_Customer_Information_Paper_Web_version_140603.pdf

[14] http://www.energyregulator.tas.gov.au/domino/otter.nsf/LookupFiles/Typical_Electricity_Customer_Information_Paper_Web_version_140603.pdf/$file/Typical_Electricity_Customer_Information_Paper_Web_version_140603.pdf

Consumer impacts from the introduction of ToU tariffs will be included in Aurora Energy's pricing proposals submitted to the Regulator as part of the Annual Standing Offer Price Approval process. This tariff is proposed to be provided to consumers on an 'opt-in'[15] basis. As a regulated tariff, it will be subject to review at the commencement of each period of the 2016-19 regulatory period as part of the Annual Standing Offer Price Approval process.

6.3.2 Future tariffs

Whilst the Standing Offer Price Strategy provides certainty to consumers on pending changes to tariffs across the 2016-19 regulatory period, it is difficult to propose new tariffs prior to the commencement of the Determination if the underlying structures of these tariffs are yet to be finalised and published.

It is appropriate therefore, to allow, during the 2016-19 regulatory period, for the Regulated Offer Retailer to propose new tariffs for consideration by the Regulator. Aurora Energy notes that in proposing new tariffs for approval the Regulator is in no way bound to approve them. All new proposals must meet the criteria of the Standing Offer Price Approval Guideline and be compliant in their presentation as part of the Annual Standing Offer Price Approval process.

Likely drivers for a new tariff proposal are demand-based products initiated by TasNetworks. Signals from the AEMC's 'Power of Choice' energy market reforms on Distribution Network Pricing, show the AER is now requiring distribution businesses to prepare tariff proposals that include new cost reflective Network Tariffs as a choice for consumers. Based on Aurora Energy's consultation with TasNetworks, it is anticipated that these new demand-based Network Tariffs will be established from the beginning of the next distribution regulatory control period commencing on 1 July 2017.

Aurora Energy again highlights its role in providing tariffs to consumers that reflect all input costs. This is a key responsibility in proposing Standing Offer tariffs and Aurora Energy will apply a consumer impact consideration to each new tariff it proposes for approval. If a new tariff has the capacity to result in unfair outcomes it will not be proposed for approval.

As such, pending rigorous consumer impact assessments, and subsequent approval of demand-based Network Tariffs by the AER, Aurora Energy may propose new demand-based Standing Offer Tariffs from Period 2 (1 July 2017) of the 2016 Determination. As per the proposed ToU tariff, these tariffs are proposed to be provided to consumers on an 'opt-in'

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[15] References to customers 'opting-in' and choosing to be supplied under new standing offer tariffs do not relate to customers moving premises. Where customers move premises, Aurora Energy will impose charges based on standing offer tariffs that align with the meters installed at those premises. Customers in these circumstances wishing to change to other standing offer tariffs may incur a charge to change meters.

basis and subject to ongoing regulatory review in future periods of the 2016-19 regulatory period.

Aurora Energy notes that only demand-based tariffs based on network tariffs approved by the AER will be considered for approval as standing offer products.

Currently, Aurora Energy does not foresee the introduction of new Standing Offer Tariffs beyond the ToU and demand-based tariffs. However, during the 2016-19 regulatory period it is likely that emerging market trends, for example electric vehicles and battery storage, will support the case for the development of Standing Offer Tariffs in subsequent Determination periods.

When these trends are realised, during the 2016-19 regulatory period or beyond, Aurora Energy will seek permission from the Regulator to propose new tariffs for approval as part of the Annual Standing Offer Price Approval process.

6.3.3 Consumer protection with Standing Offer Tariffs

Standing Offer Tariffs are one of the basic consumer protection measures for Tasmanian consumers. This is due to the function of Standing Offer Tariffs as the starting point for all consumers in taking supply. Consumers may commence on a Standing Offer Tariff in three circumstances:

- from taking supply at a newly constructed property;
- to moving into an existing property; or
- after reverting from a market retail contract.

In these circumstances, consumers who do not choose a market retail contract or do not have a market retail contract made available to them, are dependent on the Standing Offer tariff available at their property. In competition terms, Standing Offer tariffs provide a safety-net for all consumers who churn to a market offer to 'fall-back' to after that arrangement has ceased.

It is noted that the majority of Tasmanian residential electricity consumers are on a Standing Offer Tariff combination of Tariff 31 (light and power) and Tariff 41 or 42 (heating and hot water). This tariff offering is dependent upon a standard Type 6 meter with internal registers set to record consumption on different household circuits. Tariff 41 and Tariff 42, while offering a lower usage rate by comparison to Tariff 31, are dependent upon the consumer meeting specific terms and conditions, such as being solely for hot-water and heating purposes, not general power use.

A future scenario that has implications for the Tasmanian electricity market is the potential for retailers to sign-up consumers to new differentiated market offerings. The likelihood of this occurring is set to increase over the period of the Determination, especially given the developments regarding the reform of metering competition. This has the capacity to result in tariff arrangements (in place at a premise) that are distinct from Tariff 31 and Tariff 41/42, such as a 'time-of-use (TOU)' or a demand-based tariff that may be provided through a market based retail contract. In these circumstances, the new meter may not be set up to record usage at the same parameters of Tariff 41 and Tariff 42. In the case of a ToU meter this is due to its purpose to record peak, shoulder and off-peak consumption in set time frames.

In not being able to meet the set conditions of Tariff 41 or Tariff 42, a ToU meter would only record usage at the Tariff 31 level. This has future consumer protection implications for any consumer moving into a property that has a ToU meter (or any other differentiated meter) installed.

Aurora Energy notes that whilst it has an obligation to provide all consumers a Standing Offer Tariff it has no control over the offers of other retailers in the tariffs and products presented to the electricity market. Furthermore, and as referenced in section 4, it is likely that a large portion of Tasmanian consumers may not access a market based offering. This is important in the context that not all consumers will simply be able to move onto a market based contract in the event that their premise does not have a standard type 6 meter.

Under the current arrangements where there are no Standing Offer ToU tariffs, a consumer could be faced with the following options:

- Contact Aurora Energy requesting a meter installation change in order for a meter capable of recording Tariff 31/41 or Tariff 42 to be installed at the premise. Based on the current TasNetworks fee based services guideline, a meter alteration cost is $179.50[16]. This would be passed onto the consumer as a requested fee service.

- Seek no change to the meter installation and pay for all usage at the Tariff 31 rate. Across a year, a typical consumer solely on Tariff 31 as opposed to an off-peak combination could be financially disadvantaged by $510.[17]

- Seek a market retail contract with ToU terms and conditions from either Aurora Energy or an alternative retailer, although, it would be at the retailers discretion whether a market contract is offered.

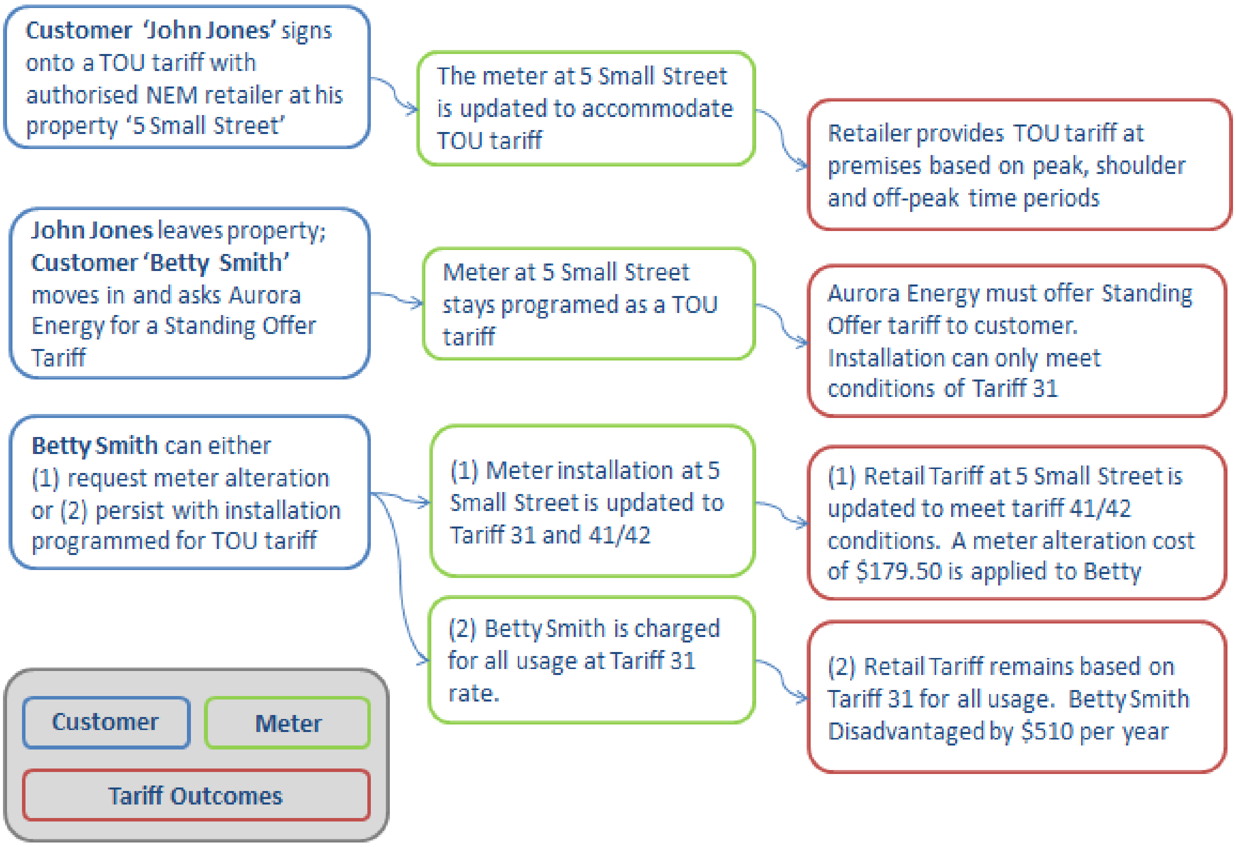
To reinforce the above scenario, Figure 2 below provides a representation of the circumstances that may lead a consumer to face a lower level of consumer protection as a

[16] http://www.tasnetworks.com.au/TasNetworks/media/pdf/our-network/2015-16-Fee-Based-Services-Application-and-Price-Guide.pdf p.9

[17] Based on cost impact for typical customer on tariff 31 rates vs tariff 31/42 a median customer would see an increase from $1971.84 p.a. to $2,482.51 p.a. based on current 2015-16 tariffs.

result of a differentiated tariff, such as the ToU tariff, not being included in the Standing Offer Tariff Schedule.

Figure 2 – Consumer implications from lack of Standing Offer TOU Tariff



Aurora Energy notes that deemed or 'move-in' consumers are not always aware of the particulars of the installation they have taken on. Further, even in highly competitive jurisdictions with significant consumer churn, a large volume of consumers do not choose to access market offers.

The volume of consumers to be impacted by this issue in the first year of the 2016-19 regulatory period is expected to be minimal. However, this scenario is set to grow in the outer years of the period and beyond.

Given the application of the Standing Offer Price Strategy across the three years of the 2016-19 regulatory period, Aurora Energy is requesting that the Regulator acknowledge the changing nature of tariffs and metering within the energy sector and the resultant need to ensure consumers are not inadvertently disadvantaged through the operation of an inflexible Tariff Schedule.

6.4 STANDING OFFER PRICE STRATEGY IMPLEMENTATION SCHEDULE

Table 9 illustrates the implementation schedule for Aurora Energy's future Standing Offer Tariffs over the term of the 2016 Determination. This table illustrates that, by the end of Period 3 under the 2016 Determination, Aurora Energy will have delivered against the objective to provide fair and transparent Standing Offer tariffs to all Tasmanian electricity consumers.

Table 9: Standing Offer Price Strategy Implementation schedule

Determination Period	Standing Offer Price Strategy Principles		
	Transparency & Simplicity	Cost Reflective	New Tariff Proposals
Period 1 (July 2016 – June 2017)	• Abolish obsolete Tariffs 73/74, 83 and 86 • Tariff 34 to be made obsolete • Consolidate Tariffs 41 and 42 • Curtilage discount to reduce from 20% to 10% • Alignment of Standing Offer tariff Terms and Conditions with Network Tariffs	**TO COMMENCE FROM PERIOD 2**	• Introduce Residential and Small Business Time of Use (ToU) Tariffs
Period 2 (July 2017 – June 2018)	• Assess requirement to make any tariffs obsolete • Abolish Tariff 34 • Curtilage discount to be removed. • Alignment of Standing Offer tariff Terms and Conditions with Network Tariffs	• Price movements of pass-through costs applied to individual tariff components • Minor rebalancing at a maximum rate of 1.5%	• Introduce Residential and Small Business Demand ToU Tariffs • Potential introduction of emerging trend based Tariff
Period 3 (July 2018 – June 2019)	• Alignment of Standing Offer tariff Terms and Conditions with Network Tariffs	• Price movements of pass-through costs applied to individual tariff components • Minor rebalancing at a maximum rate of 1.5%	• Potential introduction of emerging trend based Tariff

7 CONSUMER IMPACTS

Following the approval of Network Tariffs by the AER, Aurora Energy will include detailed consumer impacts for each year of the regulatory period as part of the Annual Standing Offer Price Approval processes in each of May-June 2016, 2017 and 2018.

8 ADDITIONAL CHARGES

In addition to the Standing Offer Price Strategy and supporting Guidelines, Aurora Energy notes that, in accordance with the 2013 Determination, the final tariff schedule to be approved by the Regulator includes "Additional Charges". These charges principally cover:

- late payment fees; and
- interest on overdue accounts.

The Tariff Schedule also notes the ability for Aurora Energy to pass through charges that have been varied or introduced by governments, regulators or network distributors. Aurora Energy highlights that late payment fees, interest on overdue accounts and the ability to pass through government and network charges are currently allowed under the 2013 Determination.[18]

Aurora Energy proposes a continuation of these arrangements. For clarity, Aurora Energy is proposing no change to the current late payment fee of $5. It is observed that this fee has remained unchanged since its introduction in 1998.

In support of the above proposal, Aurora Energy notes that the Regulator reconsidered late payment fees and interest on overdue accounts in February 2014.[19] The Regulator noted in its Consultation Paper that the removal of late payment fees and interest on overdue accounts would materially adversely affect Aurora Energy. Importantly, the Regulator also recognised that the fees applied served as an early debt indicator for consumers in the credit management cycle.

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[18] http://www.energyregulator.tas.gov.au/domino/otter.nsf/LookupFiles/Aurora_Energy_amended_Standing_Offer_Determination_incorporating_late_payment_fee_and_interest_on_overdue_accounts_20140228.pdf/$file/Aurora_Energy_amended_Standing_Offer_Determination_incorporating_late_payment_fee_and_interest_on_overdue_accounts_20140228.pdf

[19] http://www.energyregulator.tas.gov.au/domino/otter.nsf/LookupFiles/Consultation_paper_proposed_changes_to_the_2013_Standing_Offer_Determination_incorporating_TER_comments_and_OTTER_QA_140205.pdf/$file/Consultation_paper_proposed_changes_to_the_2013_Standing_Offer_Determination_incorporating_TER_comments_and_OTTER_QA_140205.pdf