



AURORA ENERGY PTY LTD

PROPOSED 2016 STANDING OFFER PRICE DETERMINATION

(2016 PRICE-REGULATED RETAIL SERVICE PRICE DETERMINATION)

Issued: 5 May 2016

As Amended: June 2016

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The Tasmanian Economic Regulator –

- (a) having conducted an investigation under Regulation 9 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 12 and 13 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:

Joe Dimasi
TASMANIAN ECONOMIC REGULATOR

PART 1 – PRELIMINARY

Commencement date, effective date and expiry date

1. In accordance with Regulations 12(3) and (4) of the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013*, this Determination takes effect on 1 July 2016 and remains in effect until 30 June 2019.

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 Regulation 16 of 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;

“**Consumer Price Index**” or “**CPI**” 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);

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

“**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 forecast small customer loads and forecast small customer numbers as set out in Table 7 and Table 8 and as forecast by Aurora Energy as part of the annual standing offer price approval process;

“Period 1” means the period commencing on 1 July 2016 to 30 June 2017;

“Period 2” means the period commencing on 1 July 2017 to 30 June 2018;

“Period 3” means the period commencing on 1 July 2018 to 30 June 2019;

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

“reference rate” means the monthly 90-day Bank Accepted Bill rate published by the Reserve Bank of Australia. The rate to apply in each quarter is the rate for the second month preceding the start of each new quarter. The reference rate will apply from the first business day of each new quarter up to and including the last business day of that quarter;

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

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

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

“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;

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

“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 section 40AB(6) of the *Electricity Supply Industry Act 1995*;

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

“Standing Offer Price Strategy” means Aurora Energy’s Final Standing Offer Price Strategy approved by the Regulator on 28 April 2016; and

“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.

Prescribed inflationary factor

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

$$(a) \quad \text{Period 2} = \left(\frac{\text{CPI}_{\text{Mar}2017} + \text{CPI}_{\text{Dec}2016} + \text{CPI}_{\text{Sep}2016} + \text{CPI}_{\text{Jun}2016}}{\text{CPI}_{\text{Mar}2016} + \text{CPI}_{\text{Dec}2015} + \text{CPI}_{\text{Sep}2015} + \text{CPI}_{\text{Jun}2015}} \right)$$

$$(b) \quad \text{Period 3} = \left(\frac{\text{CPI}_{\text{Mar}2018} + \text{CPI}_{\text{Dec}2017} + \text{CPI}_{\text{Sep}2017} + \text{CPI}_{\text{Jun}2017}}{\text{CPI}_{\text{Mar}2016} + \text{CPI}_{\text{Dec}2015} + \text{CPI}_{\text{Sep}2015} + \text{CPI}_{\text{Jun}2015}} \right)$$

The subtext (for example, 'CPI_{Mar 2016}') when used in relation to the above means the CPI for the March quarter in the year 2016.

PART 2 – MAXIMUM PRICES

Calculation of maximum prices

4. (a) The maximum prices that Aurora Energy may charge 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.
- (b) 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 5.

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 revenue and maximum prices

6. (a) For each of Periods 1, 2 and 3, and for the purposes of this clause and clause 7, Aurora Energy is required to provide details of its notional tariff base in accordance with the requirements of Part 4 of this Determination during the annual standing offer price approval process.
 - (b) For each of Periods 1, 2 and 3, and for the purposes of this clause and clause 7, Aurora Energy is required to provide details of its standing offer tariff schedule in accordance with the requirements of Part 3 of this Determination during the annual standing offer price approval process.
 - (c) The maximum prices that Aurora Energy may charge (other than in relation to charges specified in Table 5) in respect of small customers for the tariffs that are to apply each period are to be determined in accordance with the following principle:

If the price/s for each tariff were to be applied to the load and billing day schedule for the notional tariff base for each tariff as provided by Aurora Energy and approved by the Regulator during the annual standing offer price approval process, for each of Periods 1, 2 and 3, the aggregate of the results so obtained will not exceed the notional maximum revenue calculated in accordance with clause 7 for the relevant period.
 - (d) The maximum prices determined under clause 6(c) are subject to clause 11.
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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:

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

Where:

y is the relevant period (ie Period 1, Period 2 or Period 3)

NMR_y is the notional maximum revenue for the notional tariff base (as calculated during in the annual standing offer price approval process)

$R_y =$ cost to serve $_y$ x forecast number of small customers $_y$

where: the forecast number of small customers $_y$ for the notional tariff base for each of Periods 1, 2 and 3 is as provided by Aurora Energy and approved by the Regulator during the annual standing offer price approval process.

Cost to serve $_y$ means the amount estimated to represent the cost of providing services to small customers under standard retail contract during each period as presented in Table 2, escalated by the appropriate prescribed inflationary factor.

Table 2 Cost to Serve $_y$ for 2016-17

Cost to Serve $_y$ (\$/customer)	138.45
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Other than to account for inflation, the cost to serve allowance will not be adjusted as part of the annual standing offer price approval process.

WEC $_y$ means the wholesale electricity cost calculated as the forecast small customer load $_y$ x MLF $_y$ x DLF $_y$ x WEP $_y$ where the forecast small customer load $_y$ for each of Periods 1, 2 and 3 is as provided by Aurora Energy and approved by the Regulator during the annual standing offer price approval process.

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 during the annual standing offer price approval process.

DLF $_y$ means the load weighted average distribution loss factor for the relevant period as approved by the Regulator during the annual standing offer price approval process.

WEP $_y$ means the wholesale electricity price and is calculated by the Regulator in accordance with a methodology that complies with section 40AB(3) of the *Electricity Supply Industry Act 1995* and any guidelines issued by the Regulator. The Regulator will calculate the applicable wholesale electricity price for each period during the annual standing offer price approval process.

NC_y means the network costs derived by multiplying network tariffs_y by the notional tariff base_y. The Regulator will estimate network costs for each period during the annual standing offer price approval process.

M_y means the forecast metering costs as approved by the Regulator. The Regulator will estimate metering costs for each period during the annual standing offer price approval process.

$AEMO_y$ means the forecast charges, as billed by AEMO for market participation and ancillary services for each period. The Regulator will estimate AEMO charges for each period during the annual standing offer price approval process.

RET_y means the forecast cost of complying with the Australian Government's mandatory renewable energy schemes for each period. The Regulator will estimate RET costs for each period during the annual standing offer price approval.

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

CF_y is an aggregate of under and/or over recoveries in relation to changes in network costs, RET costs and AEMO charges from previous periods covered by the 2013 Standing Offer Determination as approved by the Regulator.

Margin_y means a factor applied to total costs in each period as set out in Table 3.

Table 3: Retail Margin

	Period 1	Period 2	Period 3
Margin _y	1.057	1.057	1.057

The retail margin is set for the duration of the regulatory period and will not be adjusted as part of the annual standing offer price approval process.

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*, as detailed in any guidelines issued by the Regulator. Aurora Energy may include the applicable retail margin in the calculation of the adjustment value when seeking the Regulator's approval for an adjustment.

PART 3 – STANDING OFFER PRICE STRATEGY, STANDING OFFER TARIFF SCHEDULE, DISCOUNTS and OTHER CHARGES

Standing Offer Price Strategy

8. (a) Aurora Energy is required to amend its Standing Offer Price Strategy in accordance with the Regulator’s Final Report of 5 May 2016.
- (b) Aurora Energy is required to publish its amended Standing Offer Price Strategy on its website before submitting its pricing proposal for Period 1 of the regulatory period.

Standing Offer tariff schedule

9. For each of Periods 1, 2 and 3, Aurora Energy is required to provide, during the annual standing offer price approval process, the following details in respect of each of its proposed standing offer tariffs:
- (a) the name of the tariff;
- (b) the tariff category; and
- (c) the description of the tariff.
10. Changes to Aurora Energy’s standing offer tariffs must be consistent with Aurora Energy’s approved Standing Offer Price Strategy.

Curtilage discount

11. Aurora Energy is required to provide a curtilage discount in each period as set out in Table 4.

Table 4 Curtilage discount

	Period 1	Period 2	Period 3
Curtilage discount (%)	10	0	0

Other charges

12. Aurora Energy is permitted to impose other charges as specified in Table 5.

Table 5 Other Charges

Charge	Amount/Calculation	Description
Late payment fee	\$5	Late payment fee for accounts not paid in full by the fifth day past the due date.
Interest on overdue accounts	$D \times O$ $D = \left\{ \frac{DN}{365} \right\} \times I \times O$	Interest is calculated <u>daily</u> on accounts not paid in full by the fifth day past the due date where: <u>O = the overdue balance</u> DN = daily rate <u>the number of days the account is overdue.</u> I = the reference rate + 6% <u>O = the overdue amount.</u>



PART 4 – NOTIONAL TARIFF BASE

13. For each of Periods 1, 2 and 3, Aurora Energy is required to provide, during the annual standing offer price approval process, details of its notional tariff base in accordance with the requirements and formats specified in Tables 6 and 7.

Table 6 Notional tariff base

Small customer load _y (GWh)
Small customers _y (number)

Table 7 Notional tariff base load and billing day schedule

Tariff	Energy	Energy	Energy	Energy	Energy	Energy	Total Billing	Demand
	Step 1	Step 2	Step 3	Peak	Shoulder	OffPeak	Days	Step 1

PART 5 – MISCELLANEOUS PROVISIONS

14. The Regulator's decision in respect of all matters to do with the Determination will be final and no correspondence will be entered into.
15. This Determination is administered by the Regulator.