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STANDING OFFER ELECTRICITY PRICING INVESTIGATION RELEASE OF FINAL REPORT AND DETERMINATION

Tasmania's Economic Regulator has today released its 2016 Standing Offer Pricing Investigation Final Report and Determination.

The Final Report provides the background to the Economic Regulator's investigation into retail electricity prices for customers who are not on a market contract ie standing offer customers.

The prices standing offer customers pay are determined on the basis of the Economic Regulator's calculation of the maximum amount of revenue Aurora Energy can earn from those customers. The Determination outlines how the Economic Regulator will calculate Aurora Energy's Notional Maximum Revenue (NMR). The NMR is made up of a number of cost components plus a retail margin applied to the sum of those costs.

The illustrative NMR for 2016-17 of \$480.274 million is 1.23 per cent higher than the NMR approved by the Economic Regulator for 2015-16 [See Table 1 in the Attachment]. However, the Economic Regulator, Mr Joe Dimasi, noted the impact of higher customer numbers on the calculation of the NMR and cautioned stakeholders against assuming that 2016-17 prices will follow suit, "Movements in the NMR are not a reliable indicator of likely price impacts."

Mr Dimasi also pointed out that he is directly responsible for estimating only the cost-to-serve component of Aurora Energy's costs and the retail margin percentage. Together, these components account for just over 12 per cent of Aurora Energy's NMR. For 2016-17, these components are not expected to place significant upward pressure on standing offer prices.

The other cost components, inputs and methodologies are set outside the Determination, such as network costs, the wholesale electricity cost, renewable energy costs and market participation costs. Mr Dimasi noted that he does not control the setting of these components which are passed through and, for 2016-17, won't be known until the end of May 2016.

Therefore, the final NMR for 2016-17 and the standing offer prices that will apply from 1 July 2016, will not be approved, until mid-June 2016. Mr Dimasi, noted that, "Given the regulated nature of wholesale electricity costs in Tasmania, the current Basslink outage and the actions taken to secure electricity supply have no impact on the regulated electricity prices that will apply from 1 July 2016 to residential and small business customers."

The next step in the process is for Aurora Energy to submit its 2016-17 pricing proposal. After considering the proposal and ensuring that it complies with the Determination and Aurora Energy's Standing Offer Price Strategy, the Economic Regulator will, in

mid-June 2016, determine Aurora Energy's prices for 2016-17. Details about price impacts for standing offer customers will also be available at that time.

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Copies of the Final Report, Determination,
Price Approval Guideline and Statement of
Reasons are available at:
www.economicregulator.tas.gov.au
Go to *Whats New*

Attachment

Table 1: Comparison of Aurora Energy's Notional Maximum Revenues, customer numbers and load

NMR Component	2015-16 (Period 3, 2013 Determination)	Aurora Energy Preliminary Submission NMR for 2016-17	Economic Regulator's Final Report Illustrative NMR for 2016-17
Wholesale Electricity Cost (\$m)	107.541	112.900	128.772
Cost-to-Serve (\$m)	36.436	34.060	33.151
Network Costs (\$m)	282.905	255.400	248.400
Metering Costs (\$m)	-	12.914	12.914
Adjustments (\$m)	0.103	-	-
AEMO Charges (\$m)	2.068	2.000	2.045
RET Costs (\$m)	19.793	22.000	29.092
Sub-total (\$m)	448.846	439.274	454.375
Retail Margin (\$m)	25.584	25.039	25.899
Total NMR (\$m)	474.430	464.313	480.274
Cost-to-serve/customer ^{Note 1}	159.14	150.12	138.45
Customer numbers	228 951	226 878	239 446
Load (GWh)	1 991	1 869	1 969

Notes:

1. The lower cost-to-serve per customer for 2016-17 is due to a changed approach to assessing Aurora Energy's customer numbers. This approach relies on Aurora Energy's actual customer numbers at a point in time which has resulted in higher customer numbers and, consequentially, a significant decrease in the cost-to-serve per customer relative to the cost-to-serve per customer for 2015-16 and Aurora Energy's proposed cost-to-serve per customer for 2016-17.

Chart 1: Economic Regulator's calculation of Aurora Energy's Illustrative NMR for 2016-17 by component

