



Tasmanian Renewable Energy Alliance

www.tasrenew.org.au

eo@tasrenew.org.au

(0407) 486-651

TREA response on Standing Offer prices for 2022-2023

A response to the Office of the Tasmanian Economic Regulator's January 2022 Draft Report on Investigation of maximum standing offer prices for small customers on mainland Tasmania, 1 July 2022 to 30 June 2025 (the 'Draft Report').

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Context

About TREA

The Tasmanian Renewable Energy Alliance represents solar sales and installation companies in Tasmania, as well as other developers of small-scale renewable energy project. We provide services to members and a united voice for the renewable energy industry in dealing with government and regulatory agencies. Our broader aims also include promoting the development and use of renewable energy in Tasmania.

The move to a decentralised grid

There is widespread agreement that the electricity system is moving to a much greater role for renewable energy and for distributed generation and storage of energy. (See for example {TasNetworks 2018} and {ENA 2017}.) Nationally the ENA/CSIRO Roadmap maps out a future in which by 2050:

- *Networks pay distributed energy resources customers over \$2.5 billion per annum for grid support services*
- *Electricity sector achieves zero net emissions*
- *\$16 billion in network infrastructure investment is avoided by orchestration of distributed energy resources*

- *Reduction in cumulative total expenditure of \$101 billion by 2050*
- *Network charges 30% lower than 2016*
- *\$414 annual saving in average household electricity bills (compared with roadmap counterfactual, business as usual, pathway) {ENA 2017 p.iv}.*

The TasNetworks Transformation Roadmap suggests that in Tasmania by 2025:

- 40,000 customers will have their own renewable energy source (mainly solar)
- 17,000 people will be driving an electric car
- 5,000 people will have battery storage.

Tasmania is particularly well placed to benefit from this transformation as a result of:

- the ability of our hydro system to provide long term storage to back up variable renewable energy generation (both centralised and distributed)
- the skill base resulting from over a hundred years of renewable energy engineering
- state ownership of the major generation, network and retailing businesses.

To ensure the maximum shared benefit from this transformation it is important that Tasmania has a shared vision of our energy future which translates into integrated policies across government and GBEs. A vibrant solar industry is the basis on which to develop an industry sector leading the way in new technologies of energy management, distributed storage, and the optimal integration of electric vehicles into the electricity network.

We are concerned that the very much ‘business as usual’ approach reflected in Aurora’s proposed pricing structure and tariff strategy fails to drive the innovation necessary to implement these visions of a transformed electricity system.

Incorporation of aurora+ in the Cost to Serve

We are generally supportive of the move to make the aurora+ app available to all customers without an additional charge. Many types of businesses now provided enhanced access to their services via an electronic interface, and it is rare that this is charged for separately. Timely access to information about energy usage and charges incurred is particularly important for electricity consumers who have traditionally been charged lump sums long after the product is used. Timely information can be expected to provide customers with more control and help reduce bill shock (and resulting bad debts for the retailer).

In relation to the decision to include the costs of aurora+ in the Cost to Serve allowance we note the following concerns:

- As noted in the Draft Report (p.29) “at the start of the next regulatory period around one half of the standard contract customers would face electricity bills that include the aurora+ costs but would not be able to access the benefits of aurora+.”
- The aurora+ app does not currently support tariff 22.
- Aurora’s call centre costs may initially increase as customers learn how to access and use the app. Anticipated savings may take longer to materialise.

R.1 In exchange for inclusion of the aurora+ app costs in the cost to serve, OTTER should seek an assurance and a timeline from Aurora for the aurora+ app to support tariff 22 customers.

R.2 OTTER should ensure that the allowance for aurora+ as part of the cost to serve includes adequate allowance for the marketing and support activities necessary to support the widespread take-up of the app.

We note that the Draft Report (p.28) suggests that the introduction of monthly billing and the aurora+ app may result in significant cost savings to Aurora as a result of reduced bad debt and more timely cashflow. However it should be noted that Figure 7.2 compares existing aurora+ customers (who are by definition early adopters) with all Aurora quarterly billed customers. The improvement in cashflow may not be as great once there is wider use of the aurora+ app.

Metering costs

Advanced meters are an essential tool in the ability to move to a smarter grid, to provide customers with more information about their usage and to access new tariff types and use them effectively. Customers have little control over the roll-out of smart meters and a roll-out driven by customer requests would be slow and inefficient. TREA therefore supports an accelerated roll-out of advanced meters. We also support OTTER's decision not to introduce a separate metering charge or to apply charges based on the type of meter installed at a customer's premises. As a result of these decisions, the cost of advanced meter roll-out (and any additional cost from accelerated roll-out) will be included in the cost to serve and will be spread across all customers.

While we are in agreement with this decision it does raise equity issues:

- While all customers are paying for the roll-out, not all customers will immediately have access to the benefits. The Draft Report suggests (p.21) that it will take until the end of the next regulatory period (30 June 2025) before "the vast majority of Aurora Energy's residential customers will be on advanced meters".
- Even when customers have advanced meters installed, education and awareness programs will be needed before all customers will have the opportunity to benefit from improved information flow and new tariffs.

As a result of these concerns:

R.3 In exchange for approval of the inclusion of metering costs in the cost to serve, OTTER should seek an assurance from Aurora that advanced meter roll-out will be completed as quickly as practical.

R.4 OTTER should ensure that Aurora's cost to serve allowance includes sufficient resourcing for the education and support necessary to enable customers to access the benefits of advanced meters.

Retail margin

Figure 2.1 in the Draft Report illustrates that most of Aurora's costs are passthrough costs that are not subject to review by OTTER. Only 13% of costs for 2021-2022 were the Cost to Serve (8%) and Retail Margin (5%) which are subject to determination by the Regulator.

There is a significant difference between these two components. Cost to Serve is made up of individual costs which can be compared to historical data on Aurora's actual expenditure. Retail Margin is based very much on comparison with other jurisdictions and retailers, and economic theory about risk and return on investment.

The Draft Report (p.37) quotes the ESI Act that the regulator is set prices to allow the retailer "to make a reasonable return on its investment in respect of the provision of standard retail services,

taking into account the risk of making that investment.” It is not clear what the ‘investment’ made by Aurora is.

R.5 The Regulator’s final report should spell out in more detail what the ‘investment’ made by Aurora is to which the Retail Margin applies.

We note that the Draft Report states (p.43) that “compared to standalone retailers in other Australian jurisdictions, Aurora Energy has lower than average risks relating to the wholesale electricity price, setting aside volume-related risks.”

We note also that the Draft Report states (p.41) that “In its submission, Aurora Energy claims that the only risks that should be taken into account should be ‘systematic or non-diversifiable risks’ only (such as economic, political, or social factors and not risks specific to Aurora Energy).”

We do not have sufficient information to offer a judgement on the appropriate level of Retail Margin that should apply to Aurora, however given that it constitutes 38% (5/13) of the costs subject to review and approval by OTTER, the basis for deciding on a level should be clearly spelt out in the Final Report.

If the Retail Margin is based on a return on investment taking into account risks, the actual investment should be stated, and the risks should be those that actually apply to Aurora.

If the Retail Margin is based only on comparison with other retailers and the policies of other regulators this should be stated explicitly.

R.6 The Regulator’s final report should be explicit about the logic behind the determination of a Retail Margin.

While clarity about the logical basis for setting a Retail Margin is important, the actual level of the Margin is not of great significance to consumers for two reasons:

- The difference between the margin proposed by Aurora and that proposed by OTTER is less than \$16/year/customer.
- To the extent that a larger margin results in a larger profit for Aurora, 90% of this is returned to the people of Tasmania via a dividend to the owner (the state government).

Aurora’s Tariff Strategy

As noted in the context section above (p.2), over the coming three years there is anticipated to be a significant increase in customer owned distributed energy resources, for example:

- continuing installation of solar PV, with an increase in average system size driven by decreasing costs, more commercial and industrial installations and planning for future electric vehicles (EVs)
- installation of home and commercial battery systems
- installation of EV charging systems, and potentially vehicle to grid (V2G) systems once technical and regulatory barriers are resolved
- home energy management systems.

If this investment is to be maximised, and the benefit to all consumers maximised, then new tariff strategies will be necessary as a matter of urgency to send the right price signals to consumers.

We are therefore concerned that the Draft Report, and briefings from Aurora since have identified factors that make it difficult to introduce new tariff types. These include:

- The complexity of getting new tariff types through regulatory processes for both TasNetworks and Aurora.
- Aurora’s desire to minimise financial risk by keeping retail tariffs closely aligned to network tariffs.
- Customer and politicians’ preference for standard across-the-board increases or decreases in tariffs.
- Concerns about price shocks if customers move to a tariff without fully understanding how to maximise benefits from it.

As a result of these factors it is difficult to introduce innovative tariffs or to rebalance existing tariffs. This is despite the strong pressures nationally to move to more cost-reflective tariffs.

Examples of new tariff types that might be introduced

- **Residential demand tariff:** TasNetworks currently offers a residential low voltage time of use demand tariff (TAS97) but Aurora does not offer a retail tariff based on this. Such a tariff could provide an option for residences with batteries and demand management software to maximise their savings and thereby minimise their demand (in both senses) on the network.
- **Tariffs for EV charging:** The additional load provided by electric vehicles requires management to minimise impact on the distribution network. While in the short term the residential time of use tariff is attractive to EV owners, with a large number of EVs it would be undesirable for lots of EVs to all start charging at 9pm in the evening. A controlled load tariff which staggers charging times but guarantees a set number of charging hours overnight would meet the needs of both owners and the network.
- **Two way tariffs for EVs:** Once there is a significant number of EVs in Tasmania and hardware and software is available that supports two way interaction between EV batteries and the grid (vehicle to grid or V2G) innovative tariffs are required to provide sophisticated price signals so that the use of this technology provides economic benefits to both the vehicle owner and the grid.
- **Retail tariffs with exposure to wholesale prices:** In general tariffs for residential and small commercial customers are designed to provide desirable certainty and insulate consumers from the widely variable nature of wholesale electricity prices. However there is a subset of customers who may have an interest in exposure to the wholesale market and the capability to adjust their consumption to benefit from these variations. [Amber](#) offers a product based on wholesale prices. We are not aware of Amber operating in Tasmania.
- **Embedded network tariff for residential developments:** The residential time of use network tariff (TAS93) is more suited to residential patterns of electricity use than the commercial (TAS94) but is not available to embedded networks even if all their usage is residential.

OTTER’s final report and negotiations with Aurora should focus on ways of reducing the impediments to introducing new tariffs. One solution may be to rely more on market rather than standing offer tariffs as a way to introduce innovative offerings.

Aurora’s tariff strategy (Aurora 2021a, p.16) sets out criteria for assessing new tariffs. Of particular note are:

- “the tariff reflects the relevant underlying network tariff”
- “Aurora Energy has consulted with its customers on the proposed new tariff”

Both of these criteria point to the need for a proactive approach to developing new tariffs. It is disappointing that Aurora proposes no new tariffs for the 2022-2023 period and to date there has been no substantive discussion with customer representatives about new tariff types.

Aurora's tariff strategy (Aurora 2021b) is also very vague about the possibility of new tariffs in future years stating (p.4) only "Potential introduction of emerging trend based tariffs" for 2023-2024 and 2024-2025. The strategy contains only very general discussion of possible new tariff types (p.15).

R.7 The Regulator's final report should provide commentary on whether Aurora's proposed tariff strategy offers sufficient innovation in tariff types to meet the long term interests of customers.

R.8 The Regulator's final report should address the issue of whether Aurora should be using opt-in tariffs under market or contract arrangements (rather than standing offer tariffs) to trial innovative tariff types.

References

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<https://www.economicregulator.tas.gov.au/Documents/21%203243%20%20Aurora%20Energy%20Draft%20Standing%20Offer%20Tariff%20Strategy%20-%20November%202021.pdf>
- ENA 2017, *Electricity Network Transformation Roadmap Final Report*, Energy Networks Australia & CSIRO, April 2017
The Electricity Network Transformation Roadmap has been developed to provide detailed milestones and actions to guide an efficient and timely transformation over the 2017-27 decade. It envisages a future in which up to 45% of all electricity is generated by customers and the total electricity system has zero net emissions by 2050.
<http://www.energynetworks.com.au/electricity-network-transformation-roadmap>
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