



## Submission to the Australian Energy Regulator on Aurora Energy's Regulatory Proposal on Distribution Prices for 2012-2017

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Suite 1, Level 2  
19-23 Prospect Street  
Box Hill VICTORIA 3125  
Tel: +61 3 9898 3900

Email: [euaa@euaa.com.au](mailto:euaa@euaa.com.au)

Website: [www.euaa.com.au](http://www.euaa.com.au)

## Executive Summary

In this submission we set out the Energy Users Association of Australia's (EUAA) views on Aurora Energy's regulatory proposal for the 2012/13 to 2016/17 regulatory period. The EUAA has over 100 members, many of whom are large electricity users. Electricity distribution costs would generally comprise more than 40 per cent of our members' delivered cost of electricity. We have a number of members in Tasmania who are connected to Aurora's distribution network. Those members also depend on distribution services to deliver a reliable supply of electricity with high power quality levels to their sites. We therefore have a strong interest in this review and in the outcomes determined by the AER.

Aurora Energy has forecast consistent 1 percent annual growth in electricity demand and customer connections; and customer numbers are forecast to grow by an average of 1.5 percent per annum. Given the low economic growth forecasts by Tasmania's Treasury Department and population growth that is below the long-term average, we question whether Aurora's forecasts are reflective of the economic environment in which they will be operating over the next regulatory period.

Aurora Energy has asked for a 13 percent increase in capital expenditure over their allowance over the present regulatory period. Aurora is also forecast to overspend their capex allowance by over \$110 million over the current regulatory period. Aurora reflects the trend of higher capex per customer for Government owned electricity networks compared to the privately owned electricity networks.

Demand related capex and reliability and quality maintained (RQM) capex totals half of the total capex. Given that Aurora's network length has shown limited growth and its aged asset profile indicates that a significant proportion of their assets are within 10-15 years of their standard asset lives, we question whether these expenditures are an accurate reflection of the state of Aurora's distribution network?

Aurora has asked for just over \$340 million in opex over the next regulatory period with approximately 50 percent of this expenditure for network maintenance. As with capex, Aurora incurs significantly higher opex per customer than the private distributors in Victoria. Given the relatively new assets we ask whether the maintenance expenditure forecast is an accurate reflection of the state of Aurora's distribution network?

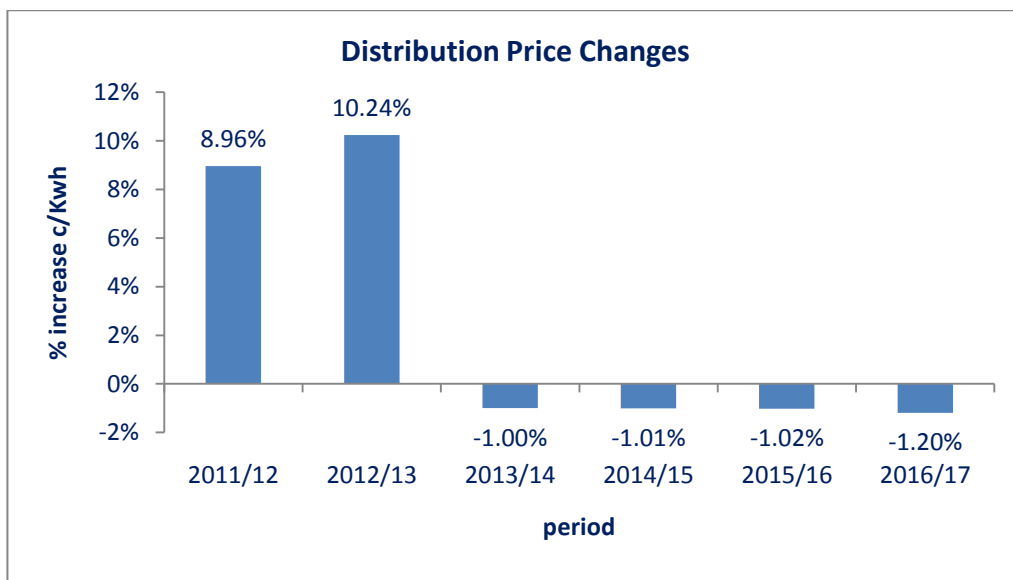
We believe that the cost of capital required by Aurora is far too high and note that the Tasmanian Government is wanting increased dividend payouts for the 2011/12 State Budget. We ask whether the cost of capital reflects a fair value and call on the AER to carefully consider options it has within the existing rules to reduce the debt risk premium. Whilst not formally a matter for the AER we also call on the Tasmanian Government's to consider the impact of its recent decision to

increase dividend payouts on the Tasmanian economy and community already being burdened by rising electricity prices.

Aurora’s regulatory proposal points to a revenue requirement of \$1.38 billion (\$2009/10) over the next regulatory period, which equates to average revenue per customer per annum of \$940 (\$2009/10). This equates to a real increase of 38% from the current regulatory period.

The first year of the regulatory period will see real a real price increase of just over 10 percent<sup>1</sup>; or a compounded increase of 12 percent over the regulatory period<sup>2</sup>. This is shown in Figure 1. The increases for Tasmanian energy consumers for 2012/13, following a significant increase in 2011/12, are significant in an environment with low economic growth, a struggling economy, business cost pressures and additional cost of living pressures.

**Figure 1: Distribution Price Changes (Sreal 2010)**



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<sup>1</sup> Aurora Energy Addendum-Equity Raising Costs p.11

<sup>2</sup> Based on a weighted average across of the tariff classes.

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## 1. Introduction

The Energy Users Association of Australia (EUAA) welcomes the opportunity to provide a submission to the Australian Energy Regulator (AER) on Aurora Energy's regulatory proposal for the period 2012/13 to 2016/17.

The EUAA is a non-profit organization that represents the interests of its members on a range of energy policy and regulatory matters, including AER reviews. We have over 100 members, including many of the largest electricity users in Australia. Taken together, our members account for a significant share of the electricity consumed in the National Electricity Market (NEM). Our Tasmanian membership includes organisations that are connected to Aurora's distribution network. Electricity distribution costs would generally comprise more than 40 per cent of our members' delivered cost of electricity. Those users also depend on distribution services to deliver a reliable supply of electricity with high power quality levels to their sites. They therefore have a strong interest in this review and in the outcomes determined by the AER.

The EUAA has been involved with all of the distribution network reviews that the AER has undertaken since it assumed the regulation of the distribution networks. In total the mainland networks have been granted approximately \$40 billion in revenues which they will collect from their customers via higher network charges. This large increase in allowed expenditure and revenue is a major concern for electricity users prompting the EUAA to investigate the performance of the distribution networks in four NEM jurisdictions, with the report on this released in May 2011.<sup>3</sup> Aurora was not included in the analysis as the AER had not commenced regulating this distribution business.

The Australian Energy Regulator (AER) and the regulated network providers have stated that higher expenditure is needed to cope with rising demand, higher standards, ageing assets and historic underinvestment. The EUAA's report found that network charges had the biggest impact on rising electricity prices. It also found that the Government owned networks spent four times more per customer connection with lower levels of customer growth and electricity demand than the privately owned networks; the State Government networks spent four times as much per connection to replace newer assets; that the average asset age for government owned networks was significantly less than that for private ones; and that the privately owned networks had provided higher quality of service than the Government owned networks with significantly less expenditure. The research in the report shows that rising prices are attributable to rising inefficiency from over-investment and inefficient operation, particularly in respect of government-owned distributors. The report also found that there were "serious deficiencies" in the economic regulation framework. We have no reason to believe that the picture would be any different for Aurora, but would encourage the AER to undertake this type of analysis as part of this review and report the findings in its Draft Determination.

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<sup>3</sup> Mountain, B Australia's Rising Electricity Prices and Declining Productivity: the role of Australia's Electricity Distributors May 2011 commissioned by the EUAA

Now that the first round of reviews of most of the transmission and distribution networks have been completed and in the face of rapidly rising network prices following these reviews (with resultant broad-based business and community concern about the increases), the AER Chair, Mr. Andrew Reeves, has acknowledged that there are a number of “shortcomings” in the regulatory framework. These “shortcomings” include:

- The regime incentivises the businesses to submit revenue proposals that are at the top, or over, what can be considered a reasonable reflection of required expenditure.
- The rules require all actual capex to be rolled into the asset base at the start of the next regulatory period, without review of its efficiency, even when the business has overspent its allowed expenditures. This results in step-changes in price increases at the start of the next regulatory period.
- The AER is restricted in the application of the cost of capital due to the rules which require the AER to assess the cost of debt against corporate bonds issued in Australia which are not reflective of the actual debt raising activities of the DSNPs. This further increases network prices.
- There have been further increases in revenues granted to the networks from appeals to the Australian Competition Tribunal (ACT) adding to network price increases. The cost of appeal is weighed against the results from a successful outcome and incentivises appealing an AER determination. The cost of an appeal can be recovered from the DNSP’s customers.

The Chair of the AER also outlined the need for wide ranging reform of network regulation to deal with the widespread and large electricity price increases being felt by electricity users in the National Electricity Market (NEM). He has acknowledged that the framework under which the regulator must operate is a factor in the increase in network prices:

*“The AER considers that changes to these rules are necessary for regulatory outcomes to better meet the objective of the law [that is, what is in the long term interests of consumers of electricity]”<sup>4</sup>*

The EUAA believes, on the basis of its own research, that these outcomes are significantly worse in the case of Government owned network service providers such as Aurora.

In sum then, the current regulatory framework and the way it is being applied is leading to excessive expenditures and rates of return, which is flowing through into excessive prices. By analogy, there seems every reason to suspect that this will also be reflected in Aurora’s proposal.

It is in this context that Aurora has submitted its regulatory proposal for its 2012/13 to 2016/17 regulatory period. Given this, we seek that the AER address these issues in this determination by:

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<sup>4</sup> Andrew Reeves, Chairman, AER, ‘Finding the balance—the rules, prices and network investment,’ Energy Users Association of Australia, *Energy Price and Market Update* seminar, Melbourne. 20 June 2011. Our parenthesis added. [www.aer.gov.au](http://www.aer.gov.au)

1. As these factors are likely to impact on proposals put forward by any regulated business, doing all it can within the existing rules to excise these impacts from its determination and outlining to Tasmanian energy consumers how it has done this and with what impact.

To the extent that it is not able to do so, outlining the impacts of this on its determination and on distribution prices over the next regulatory period.

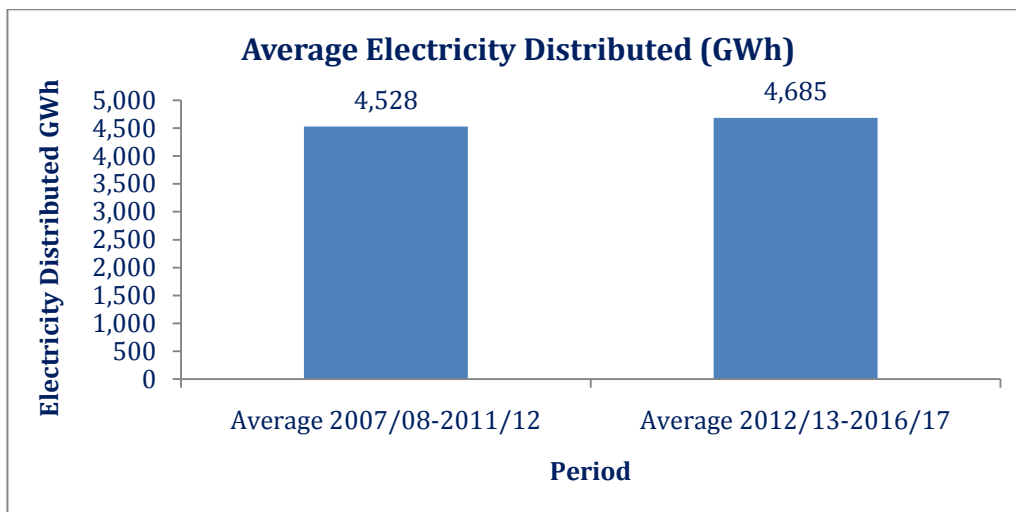
## 2. Growth forecasts

This section discusses Aurora’s growth forecasts for the next regulatory period.

### 2.1. Energy Forecasts

Aurora Energy forecast an average of 4,685 GWh of energy per annum to be consumed over the next regulatory period;<sup>5</sup> an increase of 3.5 percent over the current period. This is shown in Figure 2.

**Figure 2: Average Electricity Distributed (GWh)**



The forecasts indicate that the average annual growth in total energy consumed will be just less than 1 percent over the next regulatory period, up from 0.4 percent over the current period. Electricity consumption from the medium low voltage customer class and the irrigation customer class are 1 percent and 1.14 percent respectively. Average annual consumption growth for the residential and small low voltage customer classes is just under 1 percent; average energy consumption for small low voltage customers is 2.7 percent over the current regulatory period.

Recent statements in the Tasmanian state budget for 2011-2012 point to a weaker economic outlook and slower rate of recovery compared to previous forecasts.<sup>6</sup> The business sector has seen an easing in business confidence and the outlook for business investment is not strong.<sup>7</sup> Aurora’s forecast states that energy sales to the industrial sector and the commercial sector will be driven by a combination of economic and population growth factors. Data from the ABS indicates that population growth is forecast to grow at 0.6 percent per annum over the next ten years down from 0.7 percent per annum for the period 2001 to 2010.<sup>8</sup> Given that the energy

<sup>5</sup> Using Aurora Energy’s medium growth scenario

<sup>6</sup> Department of Treasury and Finance, Tasmania 2010-11 Mid-Year Financial Report p.15

<sup>7</sup> Parliament of Tasmania Budget Paper No. 1, The Budget p.2.11

<sup>8</sup> Australian Bureau of Statistics 3222.0 Population projections Australia Series B Tasmania.



forecast for large high voltage electricity users shows no growth over the regulatory period and just over 1 percent growth for small low voltage and medium low voltage customer classes, we query if the energy forecasts are a reasonable reflection of the forecast economic and population growth figures for Tasmania? They appear to be too high and we note the well-known incentive for network service providers to propose higher growth forecasts as this works in their favour.

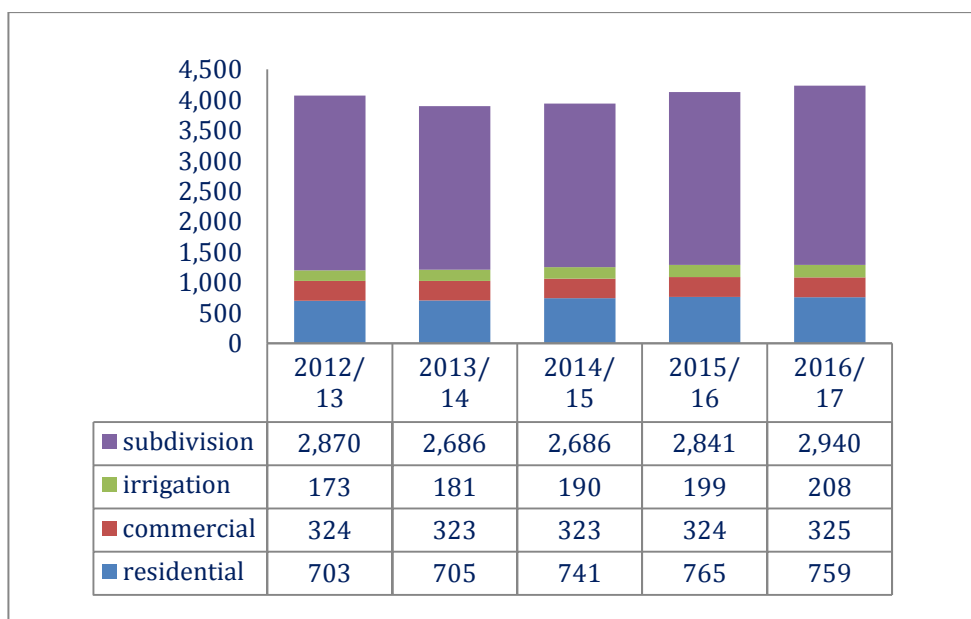
## 2.2. Customer Numbers/Connection Forecasts

Aurora Energy did not provide a historical picture or forecast of their customer numbers. This is in contrast to the distribution businesses in Queensland, New South Wales, Victoria and South Australia during the AERs review of their regulatory proposals.

### Customer Connections Forecast

Aurora has forecast 20,266 new customer connections over the next regulatory period, an increase of 11 percent from the actual/forecast total of 18,191 for the current regulatory period. The largest contributor to the total number of new connections is from subdivision connections, which total 14,023, an increase of 17 percent from the current period. Figure 3 shows the new customer connections forecast over the next regulatory period.

**Figure 3: New Customer Connection Forecasts**

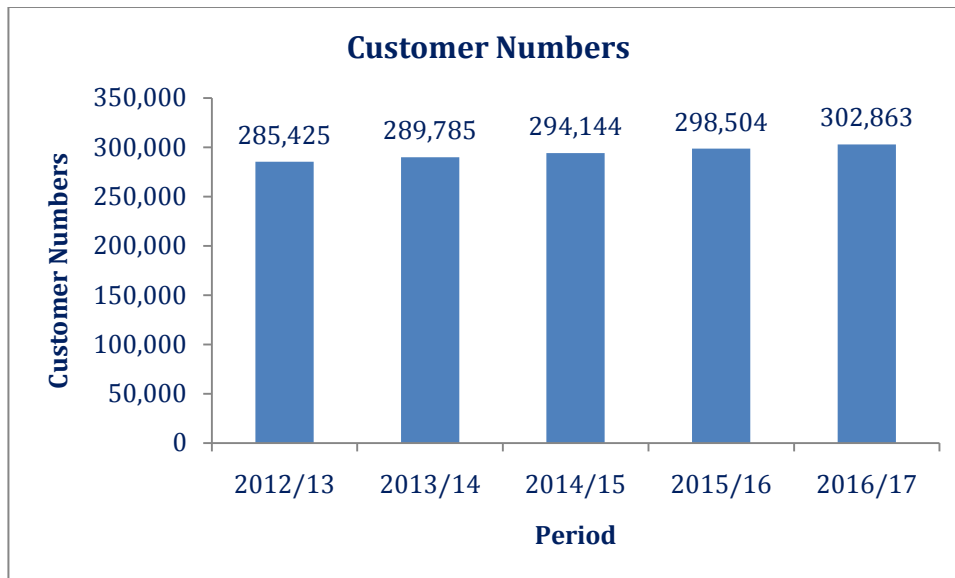


Aurora’s forecast points to significant growth in subdivision new customer connections with grow at an average of 2,804 per annum, or 2.4 percent over the regulatory period. Irrigation connections grow at an average of 190 per annum, or 2.4 percent over the regulatory period. Average commercial connections grow at 323 per annum, or 0.3 percent growth over the regulatory period. Finally, average residential connections are forecast to grow at 734 per annum, or 7 percent growth over the regulatory period. Citing the Tasmanian population and economic growth forecasts, we query whether the customer connection forecasts are reasonable, especially for the residential and subdivision new connection forecasts?

## Customer Numbers

The EUAA finds Aurora’s inability to provide a customer numbers forecast an important shortcoming in its proposal and it is inconsistent with the information submitted by the other distribution network businesses. Such a basic data set ought to be provided to the AER as part of this review and we would urge Aurora to do so or the AER to request it. Despite the lack of data, the EUAA has obtained what we believe to be a reasonably reliable data set.<sup>9</sup> Figure 4 shows the growth in customer numbers over the next regulatory period.

**Figure 4: Customer Numbers**



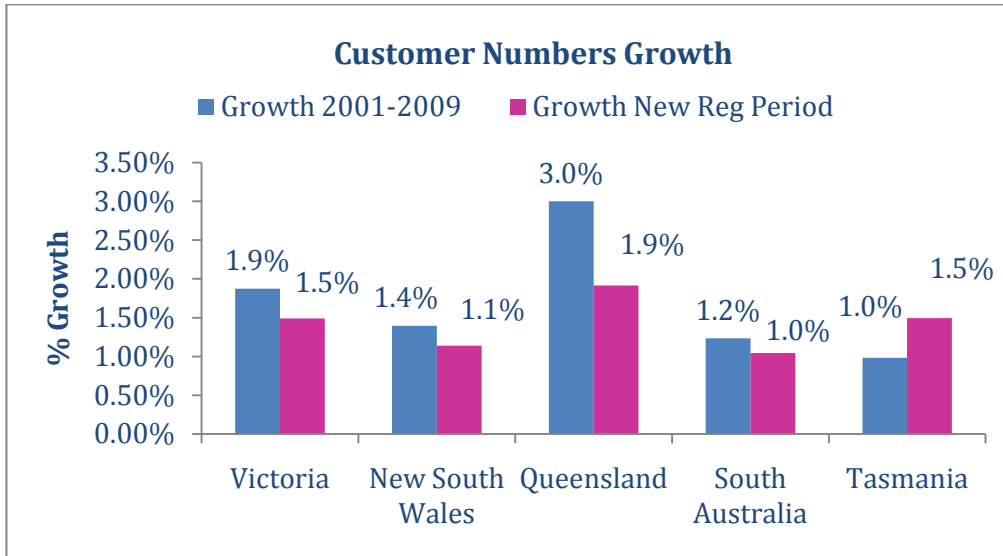
The average annual growth in customer numbers for Aurora Energy is 1.5 percent per annum over the next regulatory period, up from 1.3 percent for the current period, an increase of 15 per cent.

Figure 5 compares the average customer numbers growth for each State for the period 2001 to 2009 and the average annual growth for the new regulatory period.

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<sup>9</sup> Using a combination of data from Aurora Energy (distribution) performance reports to the Office of the Tasmanian Economic Regulatory (OTTER and data sourced from the AER.

Figure 5: Customer Numbers Comparison



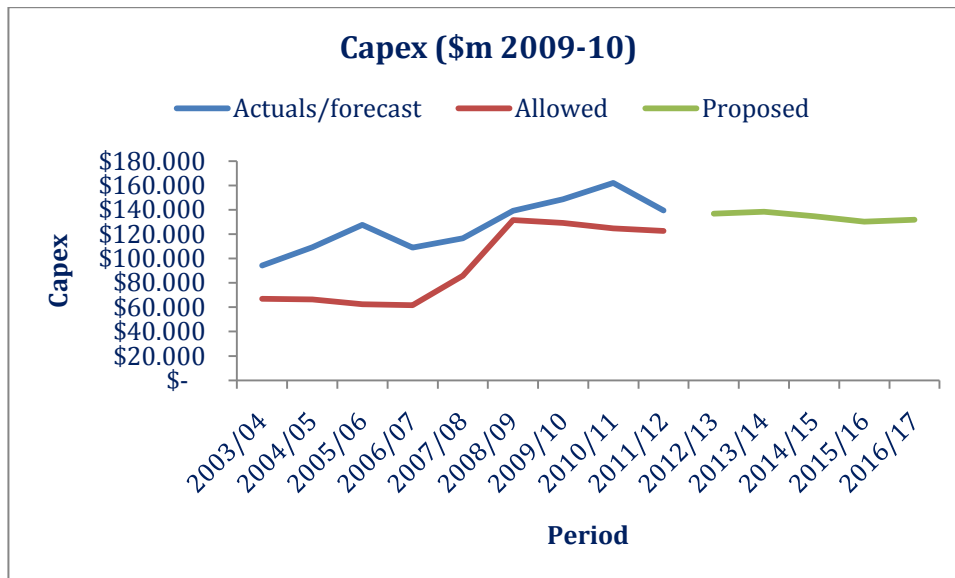
The customer numbers data point to larger growth than the average of 0.6 percent population of Tasmania forecast by the ABS, which is lower than the average growth between 2000 and 2010 of 0.74 percent.<sup>10</sup> This analysis indicates that Aurora’s growth in customer numbers is on par, or larger than, States with stronger performing economies and forecasts of greater population growth. On this basis, we doubt if the growth in customer numbers is an accurate indicator of likely outcomes?

<sup>10</sup> Aurora Energy *Energy Consumption Forecasts* July 2011 p. 4

### 3. Capital expenditure

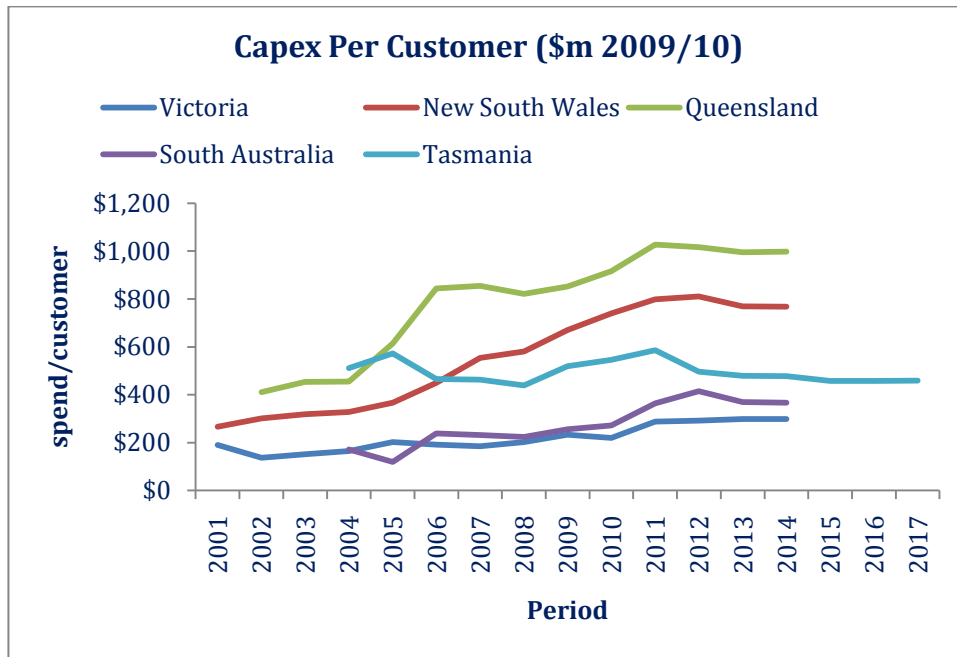
Aurora Energy has forecast a total capital expenditure of \$672.28 million (\$2010) over the next regulatory period, a 13 percent real increase over the current regulatory period. Figure 6 compares the actual, allowed and proposed expenditure from 2003/04 to the end of the next regulatory period.

Figure 6: Capex



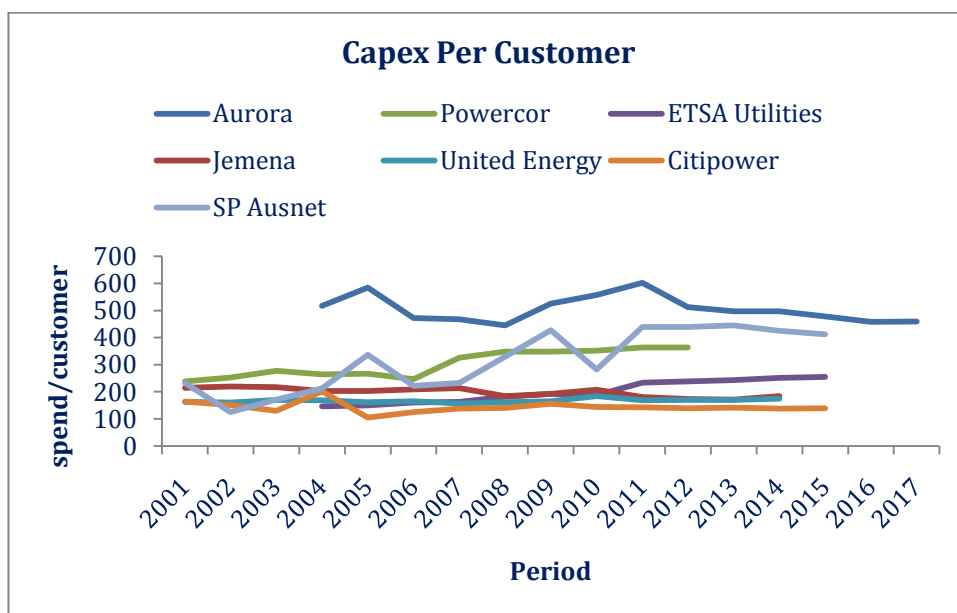
Aurora Energy has significantly overspent their capex allowance for the current period by \$112.5 million dollars, or 19 percent. Aurora’s capital expenditure per customer is significantly higher than the private distribution businesses in Victoria and South Australia but lower than the Government owned peers in New South Wales and Queensland. This is shown in figure 7.

Figure 7: Capex per Customer Comparison



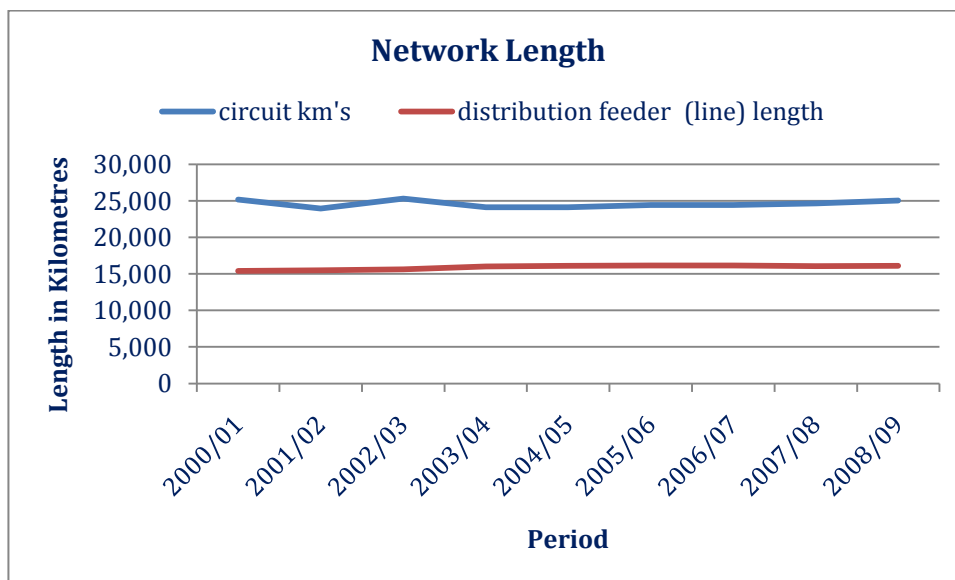
For the period 2004 to 2014, EUAA analysis finds that Aurora’s actual/forecast spend is 129 percent more than the privately owned Victorian and SA distributors. Analysis comparing Aurora Energy and the private businesses again shows Aurora’s capex per customer being significantly higher. This is the case even for privately owned utilities that are most comparable to Aurora, that is, Powercor, SP Ausnet and ETSA that have both urban and rural networks (shown in Figure 8).

Figure 8: Capex per Customer



Aurora stated that they believe that their investment in their distribution networks is at an appropriate level and that consolidation can occur.<sup>11</sup> Aurora’s network length in terms of circuit kilometres and distribution feeders has shown little growth over the ten year period between 2000 and 2010 (see Fig 9).

**Figure 9: Aurora’s Network Length<sup>12</sup>**



Aurora has asked for approximately \$268.8 million for demand related capex, with customer initiated works making up \$181.3 million of the total. We query if \$181.3 million for customer initiated works is valid given that there has been little growth in the length of Aurora’s network.

A comparison of the demand related capex forecast with Aurora’s expenditure on system related capex in the current period finds that there is a 148% increase in expenditure.<sup>13</sup> Taking into account that electricity networks often reclassify their capex we ask if this increase is justified?

Aurora has asked for \$174.2 million in reliability and quality maintained (RQM) capex, an increase of 30 percent from the current period. Aurora’s asset age profile indicates that most of these assets having remaining asset lives that are within 10 to 15 years of their standard lives.<sup>14</sup> Given the relatively new status of these assets, we ask if Aurora’s RQM requirement is reasonable?

We query why Aurora spends significantly more capex to serve their customers than the privately owned distributors? Given that Aurora incurs significantly more capex per customer than the

<sup>11</sup> Aurora Energy Regulatory Proposal 2012-2017 p.1

<sup>12</sup> OTTER Electricity Supply Industry Performance Reports 2000/01 to 2009/10

<sup>13</sup> Does not take into account expenditure reclassification

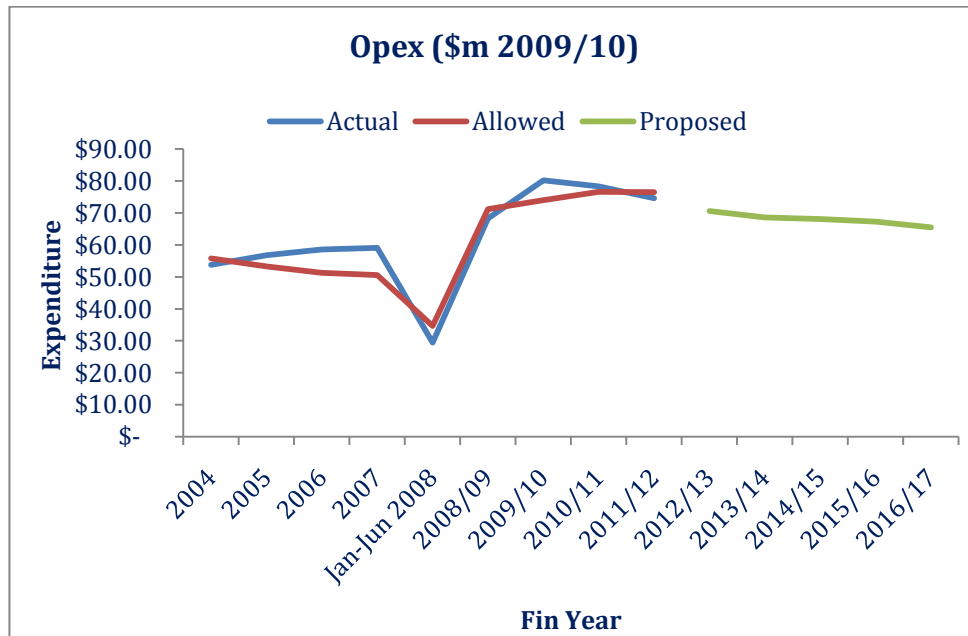
<sup>14</sup> Aurora Energy Addendum-Equity Raising Costs p.3

privately owned networks, the relatively newer state of Aurora's asset base, and lack of growth in Aurora's distribution network, we question if Aurora's capex forecast is appropriate?

## 4. Operational Expenditures

Aurora Energy has forecast opex totalling \$340.12 million dollars (\$2009-10) over the next regulatory period. Aurora’s actual, allowed and proposed opex is show in figure 10.<sup>15</sup>

**Figure 10: Actual, allowed and proposed opex comparison**

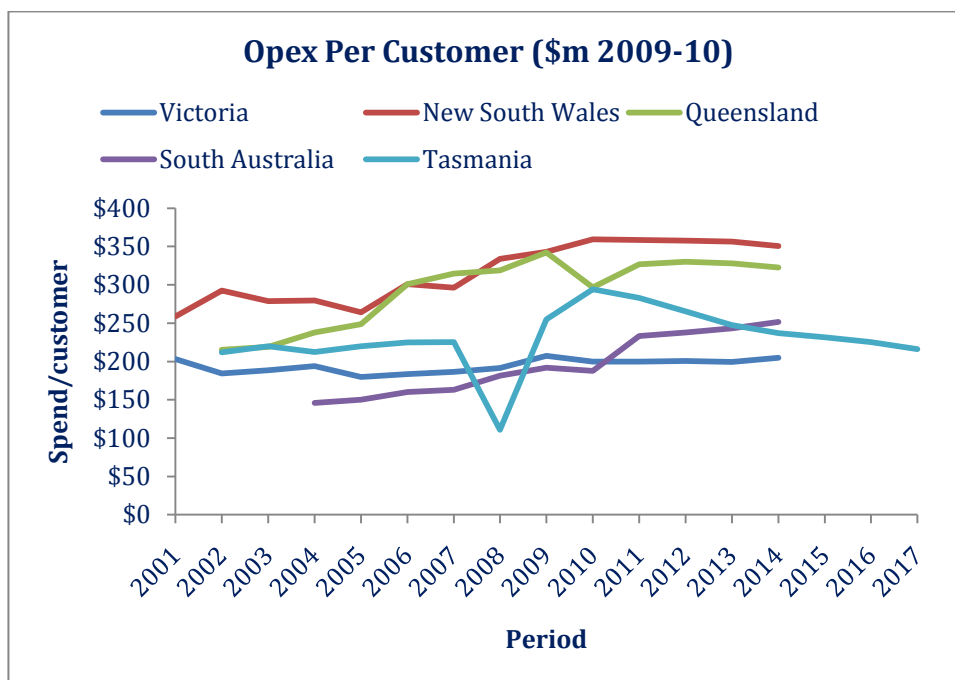


As with capex, Aurora’s opex per customer has been traditionally higher than the privately owned networks in Victoria (see fig 11).

<sup>15</sup> The sharp drop in expenditure shown in the chart reflects Aurora’s reporting of their opex in calendar years from 2004 to 2007 and 2008 as a half year and financial year. This reporting distorts the data set making the expenditure profile lower than it would be if they had maintained consistent reporting in financial years.



**Figure 11: Opex per Customer Comparison**



On average Aurora’s opex per customer is 20 percent higher than Victoria’s privately owned networks and this expenditure profile maintains the trend of higher spends per customer for Government owned networks in comparison to the privately owned networks. From an efficiency point of view and its impact on distribution prices, this is a matter of concern to the EUAA unless there is some justifiable reason for it.

Aurora has forecast \$79.8 million for routine maintenance expenditure and approximately \$98 million for non-routine maintenance expenditure.<sup>16</sup> Vegetation management makes up a significant proportion of the routine maintenance. We are not in the position to discuss the validity of Aurora’s vegetation management processes, however, from Jan 2008 to June 30 2012 Aurora’s vegetation expenditure totals \$36.7 million dollars and Aurora has asked for a similar amount for the next period. While the vegetation management expenditure is constant, there may be scope for reductions if the size of the vegetation management program over the current period has reduced the need for major vegetation works.

Aurora’s aged asset profile suggests that most of Aurora’s major assets are within ten to fifteen years of their standard asset lives.<sup>17</sup> Given the relatively new status of Aurora’s assets and its relatively newer network, we ask if the expenditure for routine and non-routine maintenance is reasonable?

<sup>16</sup> Excluding overheads pp. 139-140

<sup>17</sup> Aurora Energy Regulatory Proposal 2012-2017 p.181

## 5. Cost of capital

Aurora Energy has asked for a cost of capital of 10.33% for the next regulatory period.

Traditionally State governments have used the dividends generated from their distribution and transmission networks as an additional revenue stream.

The Tasmanian Government has decided to increase the size of the dividend payout ratios from its businesses, for the 2011/12 financial year.<sup>18</sup> In the case of Aurora Energy the dividend payout ratio will increase from 50% to 60% for the 2011/12 financial year.<sup>19</sup> Whilst this is not a matter that the AER can make decisions on, we urge the Tasmanian Government to consider the appropriateness of increasing dividend payout ratios at a time when electricity prices are rising rapidly. In doing so, we note a recent decision by the Queensland Government to direct its two electricity distributors to not pass on in their prices the impact of an appeal decision that increased the cost of capital.<sup>20</sup>

Aurora have asked for a debt risk premium (DRP) of 454 basis points (or 4.54 percent) based on the Bloomberg BBB fair value bond, with the fair value curve produced at 7 years and extrapolated to 10 years. The DRP has been calculated on the 20 day business averaging period commencing in late February and ending on March 25<sup>th</sup> 2011. An assessment of the justification for the averaging period is not possible, as Aurora has requested that this information be kept confidential. This is a matter of some concern to energy users as they would bear the costs of any inflated value included in the DRP, noting especially the concerns expressed by the AER Chair about the current treatment of the DPR in the rules and its impact on higher distribution prices. A lack of transparency due to confidentiality therefore makes users suspicious about what is potentially being hidden behind such a veil?

Aurora state that market conditions in the Australian bond market are expected to improve given the limited trade in Australian corporate bonds and the limited quantity of new bond issues. Given the limitations imposed by the NER in assessing the DRP, a robust analysis of the averaging period may well yield a lower DRP and cost of capital.

We urge the AER to carefully examine these matters to ensure that Tasmanian energy users are not being unduly disadvantaged in the prices they will pay over the next regulatory period.

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<sup>18</sup> Parliament of Tasmania *Budget Paper No 1: The Budget* p.1.7

<sup>19</sup> *Ibid* p. 4.12

<sup>20</sup> Hon. Rachel Nolan *Electricity regulator's decision will not push up power prices for Queenslanders* Wednesday, May 25, 2011

## 6. Cost pass through and additional pass through events

We do not support pass-throughs as a matter of principle as they allow low risk Government owned network monopolies to avert risk to a greater degree than competitive firms. We also note that pass through events are inherently asymmetrical in favouring cost increases over decreases, thus working to the disadvantage of energy users and in favour of regulated entities.

The EUAA notes that the AER has shared our concerns regarding pass through risk avoidance as it has stated that under the application of section 7A (3) of the National Electricity Law:

*“It is limited in its application as it has the potential to undermine the incentive to effectively manage risk in a least cost manner”<sup>21</sup>.*

We welcome this comment and urge the AER to act upon this matter.

Aurora Energy has proposed additional pass through events in its regulatory proposal on account of:

- Natural disaster events
- Bushfires events
- Storms events
- Industry restructure events
- Retailer of last resort events
- Carbon tax events
- Insurer credit risk events
- Liability above insurance cap events; and
- Feed in tariff events.

The EUAA recognises that some events may be outside the control of a distribution network service provider. We note, however, that the AER rejected a specific storms event application from Energex in its draft determination for the Queensland distribution businesses. The AER concluded that the frequency of storm events was not highly likely based on the history of major storm events. Energex submitted that major storm events could occur once every four years; however, the AER found that if such storms had the level of frequency suggested by Energex that it should forecast storm related expenditure in its opex.<sup>22</sup> The AER found that in the case that a storm impacted on the materiality thresholds under the pass through provisions in the National Electricity Rules (NER), a distributor can apply for a pass through under the general pass through event provisions. We question the validity of a specific storm pass through as a separate item given previous reasoning by the regulator.

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<sup>21</sup> AER *Queensland Draft Determination 2010-11 to 2014-15* November 2009, p. 331

<sup>22</sup> AER *Queensland Final Determination 2010-11 to 2014/15* May 2010, p. 304.

The AER has previously rejected feed in tariff events in its Queensland and South Australian draft and final decisions. It also rejected a similar pass through application from Ausgrid as it found that the costs incurred did not meet materiality thresholds.<sup>23</sup> Tasmania generates the smallest number of Small-scale Technology Certificates in Australia (29,000 in June this year, compared to 2.3 million in NSW and 1.6 million in Queensland). This is so even on a per capita basis. It is doubtful that any feed-in tariff event impacting on Aurora would exceed the materiality thresholds set out in the AER's decision on Ausgrid's application and the AER ought to respond accordingly.

We also note that the Australian Energy Market Commission (AEMC), *Payments under Feed-in Schemes and Climate Change* rule change allows for the recovery of costs for feed-in tariffs. The rule change allows for payments to be recovered through the Annual Pricing Proposals submitted to the AER.<sup>24</sup> As there is a provision for the recovery of feed-in tariff cost imposts in the rules, Aurora's application for a feed-in tariff event should be rejected.

Aurora has applied for a carbon tax event as an additional pass through. The distribution businesses in Queensland, South Australia and Victoria applied for carbon price policies as additional events. In the case of the Victorian distributors, the AER found that pass throughs associated with carbon price policies constituted a regulatory change event. We submit that a carbon tax event can be dealt with as a regulatory change event and should be rejected.

The approach the AER has taken in assessing pass through events has been to consider whether the nature of the event is foreseeable and whether the event has a low probability but a high consequence of magnitude.<sup>25</sup> In the case of a carbon tax event, we argue that the Federal Government's carbon tax is foreseeable and has a reasonable probability of occurring. The Government announced its intention to price carbon in late February and announced a starting date of July 1<sup>st</sup> 2012. Given the balance of power in the Parliament from July 1<sup>st</sup> 2011, we submit that the Government's policy has a reasonable probability of being legislated and believe Aurora's assertion that it would incur costs of a "high magnitude" should be rejected.

Unlike the mainland States, most of Tasmania's generation comes from hydro sources and natural gas, and as such, it has much lower emissions intensity. Furthermore, Aurora only supplies approximately 40 percent of Tasmania's capacity with Transend supplying the remainder. It is difficult to see where Aurora Energy (distribution) would incur costs of a "high magnitude" related to the carbon tax and we question the validity of a carbon tax constituting an additional pass through given previous reasoning by the AER.

Aurora's nomination of a retailer of last resort (RoLR) event should be questioned as the AER rejected Energex's nomination of a RoLR event in their final decision for the Queensland distribution businesses. Furthermore, Aurora's statement that there is no materiality threshold for this event can be questioned as the AER's reasoning on the rejection was that the event's 1 percent materiality threshold would not "materially affect the ability of the DNSP to provide

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<sup>23</sup> AER *Cost pass through application in relation to the NSW Solar Bonus Scheme*, March 2011 p.2

<sup>24</sup> AEMC *National Electricity Amendment (Payments under Feed-in Schemes and Climate Change Funds) Rule 2010*, pp. 8-9

<sup>25</sup> Aurora Energy *Regulatory Proposal 2012-2017* p. 211

distribution services”.<sup>26</sup> The AER believes that materiality is within its scope to take into consideration when assessing the validity of retailer failure events. Furthermore, the AER stated that it “continues to hold the view that a significant retailer failure is an unlikely event and one that could not be construed as being ‘highly likely’”.<sup>27</sup> Hence, a retailer failure can be considered to have a low probability. Moreover, Aurora itself is the dominant retailer in Tasmania. We would therefore expect similar reasoning to apply to this additional pass through.

We believe that, as a minimum, consistency in decision making be maintained when assessing the validity of Aurora Energy’s additional pass through events.

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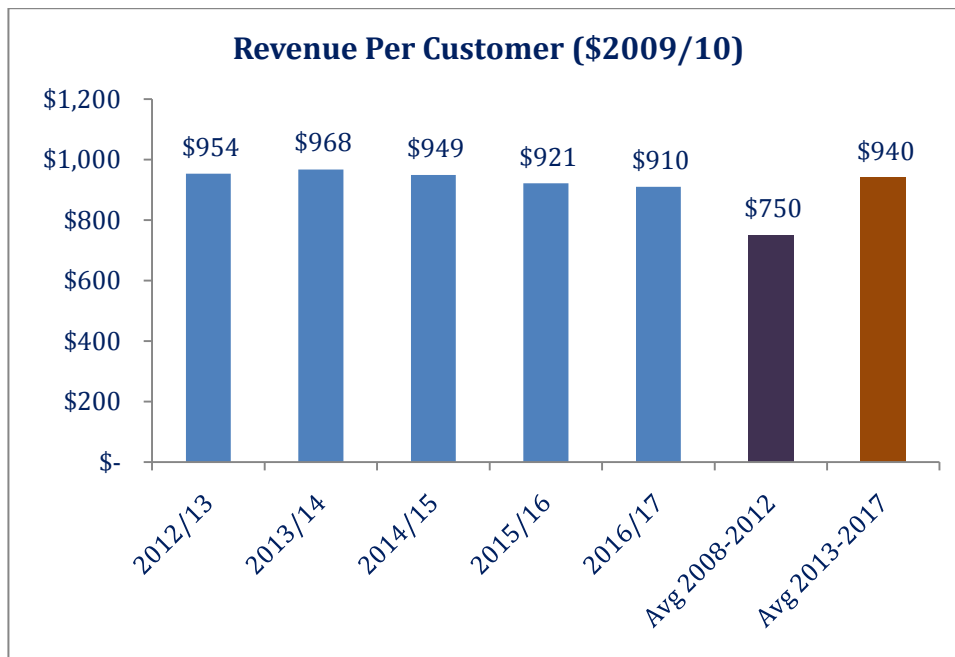
<sup>26</sup> AER *Queensland Distribution Final Determination 2010-11 to 2014-15* May 2010 p.305

<sup>27</sup> *Ibid.* p. 306

## 7. Revenue Requirement

Aurora has asked for a total revenue requirement of \$1.3 billion (\$2009/10) over the next regulatory period, a real increase of 35 percent over the current allowance. Figure 12 shows the revenue per customer for Tasmania over the next regulatory period.

**Figure 12: Revenue per Customer**

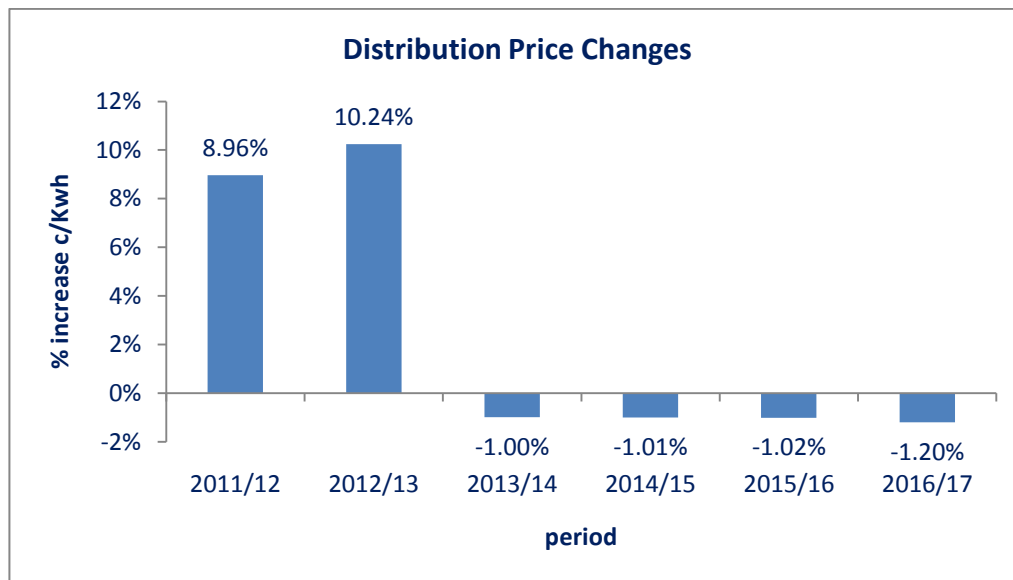


This increase is unwelcome as it would result in further electricity price increases at a time of already significant increases in electricity prices, the cost of doing business and the costs of living; even more so in Tasmania where the economy is struggling. Put simply, Tasmanian businesses and households cannot afford the price increases that would follow the acceptance of Aurora's proposal and the AER needs to take this into account and ensure that more modest outcomes ensue.

## 8. Price Increases

The first year of the regulatory period (2012/13) will see real a real price increase of just over 10 percent. This would follow an average increase of 9 per cent in 2011/12. This is shown in Figure 13.<sup>28</sup>

Figure 13: Distribution Price Changes (\$2010)



The increases for Tasmanian energy users for 2011/12 and 2012/13 are significant, especially in an environment where economic growth is forecast to be low and where there are additional increasing cost of living pressures. Whilst distribution prices would fall under the Aurora proposal in years 2-5 of the next regulatory period and this is welcome, there remains the possibility of further price increases in these years. Aurora will have its revenues capped by the AER and should Aurora under collect on its revenues, then it will be allowed to recover the lost revenues in the following financial year with the potential for tariff increases rather than the decreases indicated in the above chart.

Aurora stated at the AER's public forum held in Hobart on July 18th that it would be prepared to consider lower price increases and also to consider 'smoothing' of its proposed price changes over the next regulatory period. We welcome this statement by Aurora and believe that it would be worth more detailed discussion.

The National Electricity Objective, as stated in the National Electricity Law is:

*To promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to –*

1. *price, quality, safety, reliability, and security of supply of electricity; and*
2. *the reliability, safety and security of the national electricity system.*

<sup>28</sup> Aurora Energy Addendum-Equity Raising Costs p.11

Assessing Aurora's regulatory proposal in this regard should ensure that Tasmanian electricity users do not pay more than what is efficient over the 2012/13 to 2016/17 regulatory period.