



Warwick Anderson
General Manager, Network Regulation
Australian Energy Regulator
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Dear Mr Anderson

The Tasmanian Council of Social Service (TasCOSS) welcomes the opportunity to comment on the AER's *Draft Distribution Determination* for Aurora Energy for the regulatory period 2012-2017.

TasCOSS has an interest in electricity prices and has long been involved in energy supply and financial hardship issues on behalf of low income, disadvantaged and vulnerable Tasmanians. Our interest is focused on maintaining the affordability of electricity supply to Tasmanian households.

TasCOSS does not have the economic, regulatory or technical expertise required to comment on details of distribution determinations. Therefore our comments on the AER's *Draft Distribution Determination* for Aurora Energy are based largely on our understanding of the proposed price outcome for residential customers, and some of the major contributing components, of the draft decision.

TasCOSS welcomes the AER *Draft Determination* for the downward adjustments it makes to the *Aurora Regulatory Proposal* and therefore to the price impacts that will result if the adjustments are carried through to the AER's final determination.

In our response to the *Aurora Regulatory Proposal* (August 2011) we expressed concern at the proposed initial spike in distribution prices of around 10 per cent in 2012-13. We are pleased therefore to see the AER's decision reduce Aurora's proposed revenue by 17 per cent which will result in no increase at all in residential electricity bills.

While TasCOSS understands that external financial conditions and other factors may cause this revenue allowance to change in the final determination (and possibly within the regulatory period), we nonetheless welcome this draft decision and the principles on which it is based.

Network prices have made a significant contribution to electricity price increases in recent years. Figure 5.1 in the AER's *Draft Determination* indicates consistent over-spending by Aurora Energy on capital works from 2003-04 to 2010-11 (p 24). In regard to that over-spending, the Tasmanian Electricity Supply Industry (ESI) Expert Panel has noted:

That over-expenditure is now incorporated into the value of Aurora Energy's RAB, meaning that the cost of Aurora Energy's asset replacement program, including the expenditure over and above the allowances approved by the TER [Tasmanian Economic Regulator], will continue to be recovered from customers for the duration of the operating life of the replacement assets (typically 40 years).

ESI Expert Panel, *Draft Report*, December 2011, p 61

That *Draft Report* also notes that:

Over 70 per cent of Aurora Energy's distribution business' revenue 'entitlement' is the return it earns on the RAB.

ESI Expert Panel, *Draft Report*, December 2011, p 40

We therefore especially welcome the AER's decision on the Weighted Average Cost of Capital (WACC) reducing it from the 10.33 per cent proposed by Aurora to 8.8 per cent, and resulting in a substantial total savings of \$191.6 million to customers over the regulatory period.

TasCOSS also welcomes reductions in the allowances to Aurora Energy for both operating and capital expenditure, and particularly for the latter given Aurora's aforementioned over-spending on capital works and the consequent impact that an increased Regulated Assets Base has on future revenue allowances. Furthermore, Aurora states clearly in its *Regulatory Proposal* that 'investment in the distribution network is now at an appropriate level so that consolidation can occur' (*Aurora Regulatory Proposal*, p 1).

While these major adjustments by the AER are clearly welcomed by TasCOSS for the impact they will have on customer prices in the regulatory period, we also applaud the AER for an adjustment made to a fee-based service (Alternative Control Services). This is the fee for a 'Site visit – credit action or site issue', adjusted down from the original Aurora proposal of \$209.14 (*Aurora Regulatory Proposal*, p 243) to \$49.47 in the AER's *Draft Determination*. We further note that Aurora's *Revised Regulatory Proposal* has adjusted this fee to \$80.84. TasCOSS welcomes the downward adjustment of this fee since, we understand, it is a fee generally imposed on households that are unable to meet the costs of their electricity consumption and will already be experiencing serious financial hardship. An inflated fee for disconnection will only exacerbate the hardship experienced. In the context of this *Draft Determination* this is a minor issue; however, for some Tasmanian households (almost 1,500 in 2009-10), it is a significant adjustment.

TasCOSS congratulates the AER on this *Draft Determination* and hopes that its final *Distribution Determination* for Aurora Energy for the 2012-2017 regulatory period maintains the nil impact on customer prices that this determination has provided. This decision signals a welcome break in the recent spiral of price rises for residential electricity supply.

Yours sincerely



Tony Reidy
Chief Executive
Tasmanian Council of Social Service

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