



Response to Submissions on Aurora Energy's Draft Network Tariff Strategy Paper

Version 1, April 2008

On the 28th of February, 2008, Aurora Energy Pty Ltd (Aurora) published for consultation its Draft Network Tariff Strategy as required under the terms of the Guideline *Approval of Network Tariffs in accordance with the 2007 Determination* issued by the Tasmanian Energy Regulator in November, 2007 (the Guideline). The submission window closed on the 28th of March, 2008.

This document provides a list of the issues raised in the submissions received, and provides an outline of Aurora's response to the issues. A full compilation of the submissions, issues and responses will be included in the final Network Tariff Strategy document.

Aurora received five written submissions in response to its Draft Network Tariff Strategy, from: Mr Peter Schulze; the Energy Users Association of Australia (EUAA); the Tasmanian Energy Regulator (the Regulator); Tasmanian Farmers and Graziers Association (TFGA); and Erldunda Associates (EA).

The written submissions are available on Aurora's website http://www.auroraenergy.com.au/powerline_network/quicklinks/tariff_strategy.asp.

Aurora has also undertaken consultation with key customer and stakeholder groups, including:

- Aged and Community Care Tasmania;
- Tasmanian Chamber of Commerce; and
- Hobart Water.

Moreover, a presentation was made to EUAA-run Tasmanian Energy Forum on the 31st of March, 2008.

The final version of the Network Tariff Strategy is to be submitted to the Regulator by the 30th of April, 2008, along with a Pricing Proposal for Period 2 of the current determination.

Summary of Issues and Responses

Number	Issue / Comments	Proponent(s)	Aurora Response
1	Aurora's Draft NTS falls short in detailing and explaining the rationale for the changes as required by the Guideline and espoused in Aurora's Tariff Policy Framework.	EA, EUAA	Noted. Aurora will expand its rationale for the changes in the final strategy paper.
2	The consultation period was too short, especially before the introduction of Period 1 tariffs	EUAA	Noted. Aurora prefers longer consultation processes but was constrained by external time-lines. Aurora intends to provide longer consultation periods before the introduction of new tariffs or changes to existing tariffs.
3	Despite the lack of formal side constraints in the 2007 Distribution Determination, Aurora should take care to limit price shock.	EUAA, Regulator	Accepted. Aurora recognises the need to manage price shocks, and has applied self- imposed constraints through its own tariff principles, although this was apparently not clearly presented in the Draft NTS. Aurora intends to address this in the final NTS.
4	Adopting differing methodologies may lead to more desirable outcomes.	Mr Schulze	Noted. While Aurora notes that this is theoretically true, Aurora's pricing methodology is bound by, and must comply with, the Guidelines and the Pricing Principles of the 2007 Pricing Determination.

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5	The Draft NTS contains insufficient detail on the implementation of cost-reflective tariff structures.	EUAA	<p>Noted.</p> <p>Provided Aurora's network tariffs meet the Pricing Principles contained within the 2007 Determination, the tariffs will comply with the "cost reflective" criteria that are contained within the Pricing Principles of the 2007 Determination and the Guideline.</p> <p>Aurora recognises that the explanation of the processes to ensure that the network tariffs met the criteria was somewhat deficient, and is planning to rectify this situation in the final version of the NTS.</p>
6	Aurora should provide more 30-minute customer data, and data on Aurora's tariff classes' contribution to Aurora's system peaks, to be made available to support the allocation of cost pools to customer groups.	EUAA	<p>Aurora may not publicly disclose customer metering data, which is deemed to be confidential by section 9.20.3 of the Tasmanian Electricity Code and rule 7.10 of the National Electricity Rules.</p> <p>The allocation of cost pools to customer groups is through Aurora's externally audited DCoS model, which has remained fundamentally unchanged for a number of years.</p>
7	Aurora should undertake a targeted consultation process aid understanding of the impact moving from kW to kVA HV demand tariffs	EUAA	<p>Noted.</p> <p>Aurora undertook public consultation on kVA-based tariffs in 2005 but recognises the need for further consultation with affected users.</p>
8	Changes to customer load patterns induced by the introduction of new or revised tariffs may lead to increased costs	Regulator, EUAA	<p>Noted.</p> <p>Aurora's overall strategy is to offer incentives to users to better manage their load profiles, leading to an overall improvement in Aurora's system load factor and reduced demand.</p>

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9	Aurora should identify “winners” and “losers” resulting from tariff changes.	EUAA	<p>Noted.</p> <p>Customer effects are presented in the Typical Customer analysis required in both the NTS and the Pricing Proposals.</p> <p>In general, Aurora intends to design tariffs that reward users with good load and power factors, and who use the system at times other than those of peak loading.</p>
10	The relative changes in the General Business [N02] LV Demand tariffs [N03 & N09] are counter-intuitive	Regulator	<p>Noted.</p> <p>Aurora will review these outcomes.</p>
11	Tariff rate increases should be slow and incremental to assist in management of costs by users.	EA	<p>Noted.</p> <p>Aurora recognises the large impost in P1. The large increase in AARR in the 2007 Determination for increased works necessitated large tariff increases to recover such an amount.</p> <p>Aurora must balance tariff increases against its own revenue recovery to ensure adequate cash flow for normal operations.</p>
12	Inconsistency between Draft NTS and the Draft NTS Addenda regarding the alignment of Business and Residential General Network Tariffs	EA	<p>Noted.</p> <p>Will be corrected.</p>
13	The sequence of changes in the General Network Business Tariff charge elements applied to ‘remainder’ consumption appeared anomalous.	EA	<p>Noted.</p> <p>The ‘remainder’ changes were due to Aurora rebalancing the TUOS and DUOS costs, during the current pricing determination, to better reflect the actual pass-through transmission costs to users (in accordance with the Regulator’s pricing determination).</p>

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14	The process of unbundling network and retail costs could lead to a possible “rate shock” through a rapid acceleration in the level of network and/or energy charges.	EUAA	Network charges are constrained by regulatory determinations and pricing principles. Energy charges are beyond the control of Aurora in its role as a DNSP.
15	The process of unbundling should be transparent.	EUAA	Network charges are constrained by regulatory determinations and pricing principles and are published regularly.
16	Network charges should not increase rapidly in relation to retail charges.	EUAA	Network charges are constrained by regulatory determinations and pricing principles and are published regularly. In a contestable market, Retail charges are unregulated. The relationship between Network charges and Retail charges need not be direct.
17	No evidence of bench-marking of fixed:variable costs or ratios	Regulator	Noted. This will be addressed in the NTS.
18	No evidence of consideration of Government-specified policies and price control regulations.	Mr Schulze	Several sections of the Draft NTS covered this issue.
19	Tariff choices should exist to enable customers choose a fixed:variable charges ratio.	Mr Schulze	Such an approach would greatly increase Aurora's administration costs.
20	Inadequate description of methodology for determination of fixed and variable cost ratio	Mr Schulze	The concepts behind the allocation of fixed and variable charges were discussed in the Draft NTS.

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21	Aurora has not had regard for the fixed:variable cost ratios in other NEM jurisdictions.	Mr Schulze	Aurora has considered the fixed:variable cost ratios in other jurisdictions. They differ primarily due to different methods of recovering the costs of new connections. This will be covered in more detail in the NTS.
22	To address current environmental concerns Aurora should lower fixed charges and raises energy charges to encourage energy conservation.	Mr Schulze	Fixed costs are designed to recover the average cost of connection for each customer in a given tariff class, which cost varies little with consumption.
23	There should be maintenance of the ratio between fixed and variable charges for customers within a class.	Mr Schulze	<p>Fixed costs are designed to recover the costs of connection for each customer in a given tariff class, which cost varies little with consumption.</p> <p>Maintaining a fixed:variable costs ratio within a tariff class would lead to extensive cross-subsidisation of low use customers by high use customers.</p>
24	There is a significant change to Specified Demand tariff terms and conditions with introduction of premium rates for excess demand	Regulator	<p>This arrangement was present in 2007 and Period 1 in Network Tariff N15 for large HV customers.</p> <p>The introduction of Specified Demand tariffs for other users will be preceded by a consultation process.</p>

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25	Aurora proposes to replace Demand tariffs with Specified Demand Tariffs, which will require extensive consultation	Regulator	<p>Aurora proposes to replace HV Demand tariffs with HV Specified Demand tariffs to encourage HV users to better manage their load.</p> <p>Aurora proposes to introduce an LV Specified Demand Tariff to complement an LV Demand tariff.</p> <p>Aurora accepts that this may not have been presented clearly in the Draft NTS.</p> <p>This proposed change will not be implemented during period 2 and Aurora will undertake further consultation before the introduction of such tariffs.</p>
26	Abolition of conventional demand / capacity tariff based at least partially on measured demands, and a compulsory move to contracted demands with high multiple rates for excess demand, does not seem to represent common practice.	EA	<p>Noted.</p> <p>Compulsory Specified Demand tariffs are proposed only for HV customers. Those on these tariffs will, however, have the opportunity to adjust their specified demand levels on an annual basis, potentially leaving them better off than their mainland counterparts (who can still be paying for peak demands recorded many years ago).</p> <p>Ratchetting demand tariff regimes were considered by Aurora, but considered overly punitive in comparison to annual reset Specified Demand tariffs.</p>

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27	Potential 'ad-hoc' demand spikes may trigger excess demand charges at three times the specified demand charge	EUAA	<p>Noted.</p> <p>Aurora is required to build its network to meet maximum demand. Ad hoc demand spike require Aurora to invest significantly more in its network to ensure capacity. It is appropriate, therefore, that those causing the increased investment make an appropriate contribution.</p> <p>The provision for the user to nominate its "Specified Demand", with the ability for an annual reset, should allow the user to arrive at an acceptable trade-off between ordinary charges, excess charges, and investment in load control.</p>
28	Aurora should play an active role in assessing customer's demands on demand type tariffs	EUAA	<p>Accepted</p> <p>Aurora notes, however, that the customer is in the best position to assess their own demand requirements.</p>
29	There should an opportunity for affected persons to be consulted before the introduction of new tariffs	EUAA	<p>Accepted</p> <p>Aurora plans to do so.</p>
30	If tariff changes have been introduced for the purpose of reducing network costs in Tasmania, then a significant portion of the savings should be passed on to users when price reviews are completed.	EUAA	<p>Tariff changes to designed to reduce demand can affect only future investment. The benefits from reduced future investments will manifest in reduced increases in DNSP allowable revenue, leading to smaller increases in tariff rates.</p> <p>The size of these reductions cannot be quantified in advance. These reductions also apply only to the network charges paid by users; it is not possible to predict the future patterns of energy prices or retail charges.</p>

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31	Inadequate justification and detail surrounding the introduction of future tariffs	EA	Noted. Prior to the introduction of ToU tariffs, Aurora will undertake consultations, which will require the articulation of Aurora's position and the consideration of responses to such.
32	Inadequate details of proposed LV ToU tariff to replace the Irrigation Tariff N08 and for "Large Customers"	EA	Noted. As a result of feedback from this current consultative process, Aurora has decided not to introduce LV ToU tariffs in Period 2, preferring to undertake a more comprehensive consultation with affected parties.
33	Times for ToU tariffs could incorporate daylight savings.	EA	Operations in the NEM require the use of Australian Eastern Standard time in its transactions. For administrative simplicity, Aurora proposes to follow this practice.
34	Removal of curtilage removes recognition of general farm infrastructure requirements	TFGA	Noted. Aurora considers that curtilage arrangements do not reflect of the actual costs incurred by Aurora for the provision of supply resulting in a cross-subsidisation to curtilage customers by customers who do not receive curtilage discount. Aurora notes that curtilage discounts have been phased out in other NEM jurisdictions with the introduction of full retail contestability. Aurora will reconsider its position prior to the publication of the final NTS.
35	Lack of clear rationale for removing the Multiple Connection Discount before customers become contestable.	EA	Noted. This will be addressed in the NTS.

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36	There are no definitions for “large customer” and “small customer”	Regulator	Noted. This will be addressed in the NTS.
37	There is no specification of whether the times are Australian Eastern Standard Time or otherwise.	Regulator	Noted. This will be addressed in the NTS.
38	Introduction of a special “Strategic Water Pumping” tariff for irrigators	TFGA	Noted Aurora will consider the introduction of such a tariff, noting that a consultation will be held.
39	Explanation required for unexpected decrease in cost of supply value for larger customers	EA	Noted. This will be addressed in the NTS.
40	Seasonal definitions are ambiguous	EA	Noted. This will be addressed in the NTS.
41	There is a large differential between LV kVA [N09] demand charge and HV kVA [N10] demand charge	EA	Noted Aurora will consider this point.
42	Previous year tariffs rates and cross-over analysis should be included in tariff strategy to provide comparison	EA	Noted. This will be addressed in the NTS.
43	Mention should be made as to whether tariff rates are inclusive or exclusive of GST.	EA	Noted. This will be addressed in the NTS.

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44	Choice of significantly different tariffs may lead to changes in Aurora revenue recovery	EUAA	Noted Aurora aims to reach a set of tariffs that minimise its revenue risk but maximise user choice.

Abbreviations:

AARR	Aggregate Annual Revenue Requirement
DcoS	Distribution Cost of Supply
DNSP	Distribution Network Service Provider
DUOS	Distribution Use of System charges
ESI Act	Electricity Supply Industry Act 1995
HV	High Voltage, as defined in the ESI Act
LV	Low Voltage, as defined in the ESI Act
NEM	National Electricity Market
NTS	Aurora's Network Tariff Strategy
ToU	Time of Use
TUOS	Transmission Use of System charges