



Draft Retail Tariff Strategy

Periods 2 and 3

1/7/2008 to 30/6/2009 (Period 2)

1/7/2009 to 30/6/2010 (Period 3)

Contents

1	Summary.....	4
2	Background and Regulatory Environment.....	6
3	Policy Objectives of the Draft Tariff Strategy.....	8
4	Draft Tariff Strategy.....	8
	4.1 Compliance.....	8
	4.2 Current Retail Tariffs.....	8
	4.3 Methodologies for deriving tariff price adjustments.....	11
	4.4 Cost Allocation Methodologies.....	12
	4.5 Proposed changes to Tariff Terms and Conditions in Period 2 ..	13
	4.5.1 Preamble.....	13
	4.5.2 Small Business Tariffs.....	13
	4.5.3 Off Peak Tariff 61.....	16
	4.5.4 Off-Peak Tariff 62.....	17
	4.5.5 Other proposed changes in Period 2 (2008-09).....	17
	4.5.6 Customer Impacts of changes to terms and conditions.....	18
	4.6 Possible changes to tariff terms & condition in Period 3.....	18
	4.7 Tariff rebalancing in Periods 2 and 3.....	19
	4.8 Tariff Assignment and Re-assignment.....	20
	4.9 Draft Period 2 Retail Prices and Customer Impacts.....	20
	4.9.1 Residential Impacts.....	24
	4.9.2 Business Impacts.....	25

Tables

Table 1: Period 1 Tariffs.....	9
Table 2: Price changes over 2007.....	10
Table 3: Obsolete tariffs removed.....	11
Table 4: Nursing Homes step margins.....	12
Table 5: Business energy tariff conditions.....	14
Table 6: Impact of Curtilage on total bill.....	15
Table 7: Draft period 2 Prices.....	22
Table 8: Draft price changes Period1 – Period 2.....	23
Table 9: Residential price Impacts – Period 2.....	24
Table 10: Business Customer Impacts – Period 2.....	25
Table 11: Nursing Home Impacts – Period 2.....	26
Table 12: Irrigation Impacts – Period 2.....	26

Introduction

Aurora Energy is undertaking a consultation process for the development of a Retail Tariff Strategy for the next two years. This Draft Retail Tariff Strategy paper is available at www.auroraenergy.com.au/goto/retail_strategy or on request by emailing retail.strategy@auroraenergy.com.au or phoning Peter Dane on (03) 6237 3348.

Aurora invites submissions from interested parties on the issues outlined in the draft paper.

Written submissions should be received by 5pm on Friday 11 April 2008.

Aurora intends to publish all submissions on the Aurora website but will withhold confidential information on request.

In order to facilitate website publication it would be appreciated if submissions could be sent via email to retail.strategy@auroraenergy.com.au

Alternatively, written submissions may be posted to:

Aurora Retail Tariff Submission
GPO Box 191
Hobart Tasmania 7001

1 Summary

Aurora Retail is required to publish a Draft Retail Tariff Strategy for the Period 1/7/2008 to 30/6/2010, and to consult with stakeholders before publishing a Final Tariff Strategy.

The timetable for this process is:

Draft Tariff Strategy	14 March 2008
Consultation Period	14 March to 11 April 2008
Final Tariff Strategy	15 May 2008

In arriving at its Draft Retail Tariff Strategy, Aurora has had regard to the Policy objectives set out below:

- Retail tariff prices will comply with the provisions of the Determination issued on 31 October 2007,
- The strategy will attempt to align (over time) the retail tariffs with the approved Network tariffs, so that retail tariffs, as closely as possible, reflect the pricing structure of Network tariffs.
- The number of retail tariffs should, as far as possible, be reduced,
- The terms and conditions surrounding each retail tariff should, as far as possible, be simplified and made less rigid, in order to make it easier for customers to choose the most favourable tariff, or tariff combination, for them, and
- At the gross margin level, each tariff, or permitted combination of tariffs, should be profitable.

Retail Tariffs were reset in January 2008, in line with the Determination provisions for Period 1 (1/1/2008 to 30/6/2008). The average change in prices compared with 2007 was 15.3% for Residential tariffs and 15.8% for business tariffs. However, within these averages, particular components changed at different rates. For example, the daily charges for the hot water tariffs increased by 97.5%. Such departures from the average price change arise principally from aligning the retail prices with the Network tariffs published by Aurora Network.

In one case, fully passing through the applicable Network tariffs would have imposed significantly higher price impacts. The Nursing home tariff (Tariff 34) would have increased by approximately 40% on 1 January 2008. Aurora held back the 1 January price changes for this tariff to the average business change of 15.8%. This concession, subsidised by all other customers, will be removed with effect from 1

July 2008. Customers on this tariff will see price rises of 20% or more above the average price change at that date.

Draft Period 2 Network Tariffs have been made available by Aurora Network. Draft Period 2 retail tariffs, based on these Network tariffs have been developed and customer impacts are shown in Section 4.9.

The principal tariff proposals to take effect from 1 July 2008 are:

- To combine the small business Tariffs 22, 33 and 36 into a single tariff,
- To permit customers now on Tariff 22 to access the afternoon boost off peak tariff (Tariff 61) and the institutional hot water tariff (Tariff 43),
- To remove curtilage discounts in two stages. From 1/7/2008 the rate of discount will be halved, from 100% of the Tariff 36 daily charge to 50%. From 1/7/2009 the discount will be removed,
- To extend the off peak hours to 11 hours at night and 3.5 hours in the afternoon,
- To ensure that irrigation tariff times are clearly understood to mean Eastern Standard Time – that is, no time switch adjustments will be performed to follow Daylight Savings, and
- To relax the maximum element heating rating of 16 watts/litre for hot water cylinders to permit some smaller consumers to access the hot water tariff rates.

It should be noted that a number of these conditions for the tariffs are not normally within the purview of an electricity retailer, however due to the historical nature of bundled Network and Retail tariffs in Tasmania, it is desirable that Aurora Retail address these issues in its tariff design in conjunction with Aurora Network

Except for the removal of curtilage discounts, the proposed changes will benefit customers through providing greater flexibility in their choice of tariffs. Each curtilage installation will see an increase in their account of \$132 per annum from 1/7/2008, at January 2008 prices, and \$264 per annum from 1/7/2009.

Looking forward to Period 3, Aurora will consider further changes to the hot water and space heating tariffs, subject to an analysis of the impact on Aurora's margin and revenue.

No significant tariff rebalancing is envisaged other than that required to align retail tariffs with Network tariffs, and to meet the profitability policy objective.

This paper addresses regulated tariffs but not Pay As You Go pricing which is a separate product offering by Aurora.

2 Background and Regulatory Environment

The prices for electricity supply are mainly comprised of the electricity retailer's costs to purchase energy, transmission costs, distribution costs, and the retailer's own costs.

In determining the maximum prices for tariff customers, the Energy Regulator makes an allowance for the cost to provide services for customers, and for a retail margin. The cost to serve reflects the efficient costs that would be incurred by a retailer in providing services to its customers, including billing, account collection, customer enquiries and advice.

The amount of revenue Aurora Retail can recover from non-contestable customers is subject to the '*Declared Electrical Services Pricing Determination 2007*', (Determination) made by the Energy Regulator.

The Determination includes the requirement that:

"Retail tariffs are to be submitted to the Regulator for approval each year in accordance with the Tariff Customers Regulations and any relevant guidelines issued by the Regulator."

Regulation 5 of the *Electricity Supply Industry (Tariff Customers) Regulations 1998* (Tariff Customers Regulations) also requires:

(2) After 30 September 1998, an electricity retailer that proposes to amend a tariff as provided by section 38(2) of the Act –

(a) must submit a draft of the proposed amendment to the Regulator; and

(b) must not make the amendment to the tariff until the draft has been approved by the Regulator.

The Energy Regulator has issued a Guideline '*Approval of Retail Tariffs in accordance with the 2007 Determination*', which sets out the methodology for Aurora Retail to develop a tariff strategy. This Guideline, as it relates to tariff strategies beyond 1/7/2008, is reproduced below:

(a) Aurora must:

- 1) publish a draft Retail Tariff Strategy for Periods 2 and 3 by 14 March 2008;*
- 2) consult on that draft Retail Tariff Strategy, including by inviting public submissions;*
- 3) prepare a final Retail Tariff Strategy for Periods 2 and 3 that takes account of any submissions received and submit that Retail Tariff Strategy to the Regulator by 15 May 2008; and*

- 4) *submit to the Regulator, at least six (6) weeks before the commencement of Period 2 and subsequent Period 3 of the Determination, a further Retail Tariff Pricing Proposal (an 'Annual Retail Tariff Pricing Proposal') for the relevant Period.*
- (c) *The draft Retail Tariff Strategy and final Retail Tariff Strategy for Periods 2 and 3 must set out:*
- 1) *an explanation of the regulatory arrangements;*
 - 2) *details of the retail tariff setting policy framework;*
 - 3) *how Aurora will achieve compliance with the 2007 Determination;*
 - 4) *details of the overarching Retail Tariff Strategy, including:*
 - (i) *information on the current retail tariffs,*
 - (ii) *the proposed methodology or methodologies for deriving the retail tariff price adjustments, and the anticipated directions, movements and outcomes for each retail tariff,*
 - (iii) *proposed amendments to the terms and conditions for the retail tariffs including the rationale for the change and the expected impact on customers,*
 - (iv) *an explanation of the proposed methodology or methodologies for allocating costs between contestable and non-contestable retail tariff customers,*
 - (v) *an explanation as to how the breakdown between fixed and variable charges has been determined,*
 - (vi) *proposed reform or rebalancing of, or changes to, the retail tariffs and their structure during the duration of the Determination, including the rationale for change,*
 - (vii) *details of retail tariff assignment and any proposed re-assignment including the rationale for change,*
 - (viii) *a description of outcomes arising from the proposed strategy including a customer impact analysis that demonstrates the impact on typical customers, and*
 - (ix) *consultation undertaken in accordance with clause 2.4, which states:*

"Aurora is required to provide the following details as to its consultation with stakeholders on the development of its Retail Tariff Strategy:

 - (1) *parties with whom Aurora has consulted;*
 - (2) *information provided and how accessible it was;*
 - (3) *the timeliness of the provision of the information;*
 - (4) *the time which stakeholders were given to respond; and*
 - (5) *how issues raised by stakeholders were taken into account."*

This document should also be read in conjunction with the Aurora Network, 'Draft Network Tariff Strategy' which is available at the Aurora Energy website.

3 Policy Objectives of the Draft Tariff Strategy

In developing the Aurora Retail tariffs, the principles that govern tariff development are:

- Retail tariff prices will comply with the provisions of the Determination issued on 31 October 2007,
- The strategy will attempt to align (over time) the retail tariffs with the approved Network tariffs, so that retail tariffs reflect the pricing structure of Network tariffs.
- The number of retail tariffs should, as far as possible, be reduced,
- The terms and conditions surrounding each retail tariff should, as far as possible, be simplified and made less rigid, in order to make it easier for customers to choose the most favourable tariff, or tariff combination, for them, and
- At the gross margin level, each tariff, or permitted combination of tariffs, should be profitable.

4 Draft Tariff Strategy

4.1 Compliance

Retail tariffs will be set so as to recover, in aggregate, no more than the Notional Maximum Revenue (NMR) permitted by the Determination in Periods 2 and 3. Period 2 is from 1/7/2008 to 30/6/2009, and Period 3 is from 1/7/2009 to 30/6/2010.

Compliance will be demonstrated by:

- a) calculating the NMR for the relevant Period in accordance with the formulae included in the Determination; and
- b) calculating the Notional Revenue that would be obtained by applying the proposed retail prices to the loads contained in the relevant Schedules in the Determination and demonstrating that it does not exceed the NMR.

4.2 Current Retail Tariffs

Retail Tariffs were reset in January 2008, in line with the Determination provisions for Period 1 (1/1/2008 to 30/6/2008). The average change in price over 2007 was 15.3% for Residential tariffs and 15.8% for business tariffs.

Within these averages, the structure and prices of certain Network tariffs made it necessary to change some components of individual tariffs by different percentages. Details of the approved Period 1 tariffs (including GST) are provided below:

Table 1: Period 1 Tariffs

Tariff	Segment	Daily charge (c/day)	Energy Step 1 (c/kWh)	Energy Step 2 (c/kWh)	Energy Step 3 (c/kWh)	Demand (kW or kVA) Step 1 \$/unit/pa	Demand (kW or kVA) Step 2 \$/unit/pa
22	Business	72.473	22.620	16.605			
31	Residential	63.847	18.511	17.616	15.016		
33	Business	72.473	22.620	16.605			
34	Business	89.109	19.788	15.386	12.945		
36	Business	72.473	22.620	16.605			
41	Residential	12.102	10.623	10.623			
42	Residential	12.102	10.623				
43	Business	12.102	10.623				
54	Business	159.470	11.804				
55	Business	67.734	20.509				
61	Residential	15.335	8.385				
62	Residential	15.335	7.897				
73	Business		8.361				
74	Business	208.149	19.029				
82	Business	195.337	9.749			127.878	127.878
83	Business	195.337	9.749			162.300	162.300
85	Business	191.589	8.582			76.193	
86	Business	191.589	8.582			95.899	

The average price changes over 2007 are shown in the following Table:

Table 2: Price changes over 2007

Tariff	Segment	Daily charge	Energy Step 1	Energy Step 2	Energy Step 3	Demand Step 1	Demand Step 2
22	Business	12.1%	17.1%	16.0%			
31	Residential	1.9%	16.3%	16.3%	34.9%		
33	Business	12.1%	17.1%	16.0%			
34	Business	15.8%	15.8%	15.8%	20.5%		
36	Business	12.1%	17.1%	16.0%			
41	Residential	97.5%	8.8%	17.2%			
42	Residential	97.5%	17.2%				
43	Business	97.5%	17.2%				
54	Business	15.8%	15.8%				
55	Business	15.8%	15.8%				
61	Residential	15.3%	20.5%				
62	Residential	15.3%	20.5%				
73	Business		15.8%				
74	Business	15.8%	15.8%				
82	Business	54.1%	17.1%			8.7%	33.2%
83	Business	104.8%	17.1%			9.6%	34.4%
85	Business	50.6%	18.5%			15.8%	
86	Business	61.1%	18.5%			15.8%	

Price changes, which depart from the averages given earlier, arise from the following factors:

- The prices of the underlying Network tariffs (Tariffs 82 to 86 inclusive; daily charge for Tariffs 41 to 43; energy charge for Tariffs 61 and 62; Step 3 energy charge for Tariff 31),
- Changes in tariff structures initiated by Aurora Retail (the percentage change in the energy steps for Tariff 41 reflect the removal of the former higher Step 1 charge; the percentage changes in the Demand steps for Tariffs 82 and 83 reflect the move to a single demand step in Period 1), or
- Changes needed to comply with the NMR requirements, given the other changes mentioned above. These were concentrated in the daily charges for Tariffs 31 and 22 and the second energy step for Tariff 22.

It should be noted that price changes for the Irrigation tariffs (73 & 74) were held to the average change although the Network tariffs would have suggested higher increases in both the daily charge and the energy charges. Similarly, prices for the Nursing Homes Tariff (34) were not increased to the full extent of the applicable Network tariffs. (These concessions are paid for by a cross subsidy from all other customers and will need to be removed during Period 2).

As part of the Retail tariff resetting process, certain obsolete tariffs, which no longer had any customers, were removed from the published list, as shown below:

Table 3: Obsolete tariffs removed

Tariff	Description	Reason for Abolition
25 and 37	High Voltage energy – Tariff 25 & 37 (Obsolete)	No customers remain on these tariffs.
26 & 38	High Voltage energy – Tariff 26 & 38 (Obsolete)	No customers remain on these tariffs.
28	High Voltage energy – Tariff 28 (Obsolete)	No customers remain on this tariff.
71/72	Two Rate Supply – Tariff 71/72 (Obsolete)	No customers remain on these tariffs.
78	Industrial Process Heating – Tariff 78 (Obsolete)	No customers remain on this tariff.
81	Commercial & Industrial Power – low voltage supply –Tariff 81 (Obsolete)	No customers remain on this tariff.
90	Industrial high voltage demand (LV Metered) – Tariff 90 (Obsolete)	This tariff has had the same price as Tariff 86 throughout the term of the 2003 Determination, and no customers remain on this tariff.

4.3 Methodologies for deriving tariff price adjustments

The process of arriving at changes in tariff prices includes the following steps:

- Calculate the residential and business NMR using the formulae in the Determination;
- Calculate the uniform average change in business and residential prices which, when applied to the relevant load schedule, gives the NMR;
- Compare the structure of the prices so derived with that of the Network tariffs used as an input to the NMR and calculate the gross margin (tariff revenue less input costs) for each tariff for a range of consumption levels;
- Where any tariff shows a negative gross margin adjust (increase) the prices for that tariff to give an acceptable gross margin. This will usually involve rebalancing the retail tariff charges in line with the Network Tariffs. This process will cause the aggregate notional revenue to exceed the NMR, so compensating decreases in prices of some of the margin positive tariffs will be required to be compliant with NMR limits.

The reason a tariff may produce a negative gross margin is almost always because of a ‘disconnect’ between the retail prices

and the Network tariffs. As an example the Table below compares the Period 1 Retail and Network tariffs (excluding GST) for Nursing Homes (Tariff 34):

Table 4: Nursing Homes step margins

Tariff Element	Retail Tariff (A)	Network Tariff (B)	Energy Cost + Losses (C)	Gross Margin (A-B-C)
Daily Charge	81.01 c/day	42.3 c/day		+38.71 c/day
Energy Charge - 1 st 500 kWh/quarter	17.989 c/kWh	10.811 c/kWh	6.883 c/kWh	+0.295 c/kWh
Energy Charge - 2 nd 500 kWh/quarter	13.987 c/kWh	6.844 c/kWh	6.883 c/kWh	+0.26 c/kWh
Energy Charge - Remainder	11.768 c/kWh	6.844 c/kWh	6.883 c/kWh	-1.959 c/kWh

In this case there is a ‘disconnect’ in the third energy step, where the retail price falls sharply from the second step price, whilst the Network price remains constant. Since 99% of Nursing Home consumption is in Step 3, this produces a substantial negative margin for Aurora Energy, from this Tariff.

In Period 1, if the principles set out above had been fully applied, Nursing Home customers would have seen price increases of approximately 40%. Aurora chose to limit increases to around 20% in Period 1 so that consultation could occur with this group of customers prior to this subsidy from all other customers towards Nursing Homes being removed in July 2008.

4.4 Cost Allocation Methodologies

The price resetting process described above does not require Aurora Retail to make any judgements as to the allocation of costs between contestable and non-contestable customers. The Determination sets the underlying costs for non-contestable customers.

However judgement is required for the allocation of under or over-recovery of costs in prior years, with any adjustments for such items entering the NMR calculation.

In this regard it is necessary to allocate actual costs between contestable and non-contestable customers, and to compare the actual non-contestable costs with those set out in the Determination. The allocation methodologies will be addressed in Aurora’s Retail Tariff Pricing Proposal, which is to be submitted to the Energy Regulator by 19 May 2008 (for Period 2).

4.5 Proposed changes to Tariff Terms and Conditions in Period 2

Aurora Retail will be required to alter the tariff terms and conditions to account for changes to tariffs, and the introduction of Network tariffs. The changes set out below refer to the Tariff Terms and Conditions published on Aurora's website which can be located at;

http://www.auroraenergy.com.au/pdf/residential_electricity_rates_2008.pdf,

and,

http://www.auroraenergy.com.au/pdf/business_electricity_rates_2008.pdf.

4.5.1 Preamble

Two additional items will be added to the preamble:

- a) "Power Factor". This item is added to ensure that the tariff conditions reflect the requirements of the Tasmanian Electricity Code. Accordingly, references to Power Factor in the conditions of individual tariffs are removed.
- b) Definition of Times. This item will state that all references to times means Eastern Standard Time. This is in line with the proposal under Aurora's Network tariffs, the Tasmanian Electricity Code, and the National Electricity Law.

4.5.2 Small Business Tariffs

There are three distinct tariffs providing light and power for small and medium business customers, which have had identical prices since 2003.

These are:

- Tariff 22 – General
- Tariff 33 – Institutional Light & Power
- Tariff 36 – Commercial/Residential, Educational & Farm

These tariffs attract the same Network Tariff, and are distinguished only because of differences in the terms and conditions applying to them. The differences are summarised below:

Table 5: Business energy tariff conditions

Tariff	Name	Other Tariffs	Other conditions	Applies to
T22	General	62	<ul style="list-style-type: none"> Electrical energy for all purposes Low voltage only 	Not restricted
T33	Institutional Light & Power	43; 61 or 62	<ul style="list-style-type: none"> Low Voltage only Power factor not <80% Tariffs 43, 61 or 62 for storage hot water only. 	Hospitals ANZSIC 861; Residential schools ANZSIC 84; Accommodation ANZSIC 5710 not eligible for T31.
T36	Commercial/Residential; Educational & Farm Buildings	43 or 62	<ul style="list-style-type: none"> Low Voltage only Power factor not <80% Tariffs 43, 61 or 62 for storage hot water only. Curtilage discount applies in conjunction with T31 for a separately metered residence. 	Non residential schools; Separately metered farm outbuildings; Commercial/residential premises if the residential floor area > commercial floor area.

Aurora proposes to combine these three tariffs into a single General Tariff from 1/7/2008 by:

- Removing the reference to power factor – these would be replaced in the preamble to the tariff advertisement by references to compliance with “the Code”, and would apply to all tariffs,
- Removing the usage type and ANZSIC code restrictions applying to Tariff 33,
- Removing the end use restrictions applying to Tariff 36,
- Permitting a general choice for these customers between the two off-peak Tariffs (Tariff 61 allows an afternoon boost; Tariff 62 does not). Customers would then have a choice between taking the afternoon boost at a higher price or doing without it at a lower price,
- Permitting Tariff 43 (non-residential hot water) to be used by any of these customers. This would remove some issues relating to commercial/residential premises (e.g. bed & breakfast establishments), and extend a cheaper hot water supply to existing Tariff 22 customers, and
- In line with the Policy objective of reflecting Network Tariffs in retail prices, reducing curtilage discounts by 50% with effect from 1 July 2008, and removing them

from 1/7/2009. This change will be given effect by changes to the wording of the current condition (c) in Tariff 36.

Discussion on Curtilage Discounts

Aurora Energy currently provides a rebate of the Tariff 36 daily charge to customers who have a residence supplied under Tariff 31 and one or more farm outbuildings or pumps supplied under Tariff 36 within the 'same curtilage' and supplied from the same transformer. To be eligible the relevant installation must also be classified as "agricultural" under ANZSIC Subdivision 1 (1993 Classification).

There are approximately 5300 installations currently receiving this discount.

The discount is provided solely by Aurora Energy and is not matched by a Community Service Obligation. Such discounts are not encompassed within the National Electricity Rules, and will not be available once their recipients become contestable.

Aurora Network has addressed the issue of curtilage in an addendum to their Draft Network Tariff Strategy.

Based on 2006-07 consumption and January-June 2008 prices, the following observations can be made on the customer impact of removing curtilage discounts:

- Each installation will see a cost increase of \$264.53 per annum if curtilage is completely removed;
- What this represents as a percentage change depends on consumption. The Table summarises the % impacts;

Table 6: Impact of Curtilage on total bill

Annual Consumption (kWh)	% Change	Cumulative Number of Sites	Cumulative % of Sites
0	∞	714	13%
100	1,169%	1,573	30%
400	292%	2,669	50%
1,000	117%	3,593	68%
2,000	58%	4,271	80%
5,000	28%	4,820	91%
Over 5,000	11% (average)	5,311	100%

It is clear that there is a predominance of low consumption sites receiving the curtilage discount. 50% of the sites consume less than 400 kWh per annum, and 80% less than 2,000 kWh per annum. One reason for this is that customers, being exempt from any fixed charges, have no incentive to consider whether or not they really need the connection. We would expect up to 50% of these customers to review their supply arrangements once they are exposed to the standard fixed charges.

4.5.3 Off Peak Tariff 61

Condition (a) for Tariff 61 will be amended to permit off-peak rates to apply, if desired by the customer, for the full 11 hours at night, rather than “at least 9 hours”, and for 3.5 hours in the afternoon, rather than 2 hours between 1 pm and 4:30pm. The words “at least” are replaced by “up to”. Many customers will have equipment, which would need upgrading to take advantage of extended hours, so this is an enabling change, rather than one, which would oblige Aurora immediately to change all time switches to the new hours. Customers would need to apply to have their time switches reset, and pay the appropriate service fee.

Condition (b) (i) will be amended to allow customers taking supply on the restructured Tariff 22 to access Tariff 61, with its afternoon boost. At present Tariff 22 customers cannot access the afternoon boost. The reference to ANZIC code is deleted in line with the new conditions of the restructured Tariff 22.

The General Conditions for Off peak Supply are amended to:

- Permit off-peak supply to be used for any purpose other than power points, except for pre-existing power points; conditions (a) and (f) are amalgamated.
- Remove the reference to “selected times within the Periods” being at Aurora’s discretion, since it is now redundant.

The ultimate purpose of the changes to the off peak rules is to allow customers a free choice between supply with an afternoon boost, at a higher price, or without afternoon boost, at a lower price.

These changes are proposed to take effect from 1/7/2008.

4.5.4 Off-Peak Tariff 62

The conditions will be changed to reflect the changes to permitted hours, and the restructuring of Tariffs 22, 33 and 36. A new condition dealing with purpose, as in Tariff 61, is added.

4.5.5 Other proposed changes in Period 2 (2008-09)

Tariff 31.

In period 2 Condition (e) will be deleted because Power Factor is now covered in the preamble.

Tariff 43 – Institutional Hot Water

Condition (a) is amended to recognise the revised Tariff 22, and otherwise preserve previously permitted associations.

Hot Water Tariffs (Tariffs 41, 42, & 43)

There are an increasing number of single or two person households, which do not need a hot water cylinder as large as the current minimum size. Such people must use Tariff 31 for their hot water, at a cost approximately 50% greater than if they could use a hot water tariff (comparison is based on hot water consumption of 3,000 kWh pa).

The current minimum cylinder size is approximately 150 litres, resulting from the heating element restriction in the tariff of a maximum of 16 watts per litre. At standard residential supply voltages of 240 volts and 10 amps, this translates into a minimum cylinder size of 150 litres (240 volts x 10 amps divided by 16 watts).

Some re-wiring of households may be needed to take advantage of this revised condition.

It is proposed that the references in the tariff conditions stating that these tariffs do not apply to cylinders having a heating element rating in excess of 16 watts per litre will be removed from 1/7/2008.

The provision of instantaneous electric hot water is not envisaged at the present time, so the tariff conditions relating to sink heaters will be retained.

General Conditions

The “General conditions applicable to all commercial and industrial customers” are deleted except for condition (d). This recognises that power factor is now dealt with in the preamble.

Obsolete Tariffs

Obsolete Tariff 54 no longer has any customers, and will be removed from the Tariff Schedule from 1 July 2008.

We will endeavour to work with the single customer on obsolete Tariff 35 so that this tariff can also be removed in July 2008.

4.5.6 Customer Impacts of changes to terms and conditions

With the exception of the removal of curtilage discounts, which is dealt with in Section 4.5.2 above, none of the other proposed changes would disadvantage any customers. Their effect is to provide an opportunity for customers to achieve lower tariff costs, for example through a wider application of off-peak tariffs or of Tariff 43. However, in order to take advantage of these opportunities, most customers will need to incur equipment or electrical costs and pay the relevant Aurora fee. Not all customers will therefore find it economic, at least in the short term, to move away from their current tariffs.

Tariff rebalancing during Period 2 is dealt with in Section 4.7 below.

4.6 Possible changes to tariff terms & condition in Period 3

Aurora is considering making changes to the Hot water Tariffs (41; 42; & 43) from the commencement of Period 3.

These three tariffs already have identical prices, and attract the same Network Tariff. At present, Tariff 41 is restricted to residential customers; Tariff 42 (HydroHeat) is also restricted to residential customers and is subject to a minimum fixed heating capacity of 3.5kW; Tariff 43, if the Period 2 proposals are

implemented, will be restricted to small business and Nursing homes supplied under the General Tariff 22, or Tariff 34.

Aurora believes that there is a substantial demand from small business for a “Business HydroHeat” offering. Such a product would allow small business or Nursing homes to add space heating to the existing Tariff 43 hot water supply, which would offer considerable savings to such customers on their heating costs (currently charged on Tariff 22 or 34).

Because the potential savings (and, therefore, revenue loss to Aurora) could be substantial, Aurora will not be able to commit to introducing such changes until it has evaluated the revenue impacts in some detail. The major issue here is that data on the heating proportion of small business load is sparse, and research will be needed to better establish this amount. Aurora has previously estimated that if heating accounted for 13% of all Tariff 22 load, and this all moved at once to a “Business HydroHeat”, some \$4M of annual revenue, and \$0.7M of gross margin would be lost. However, some estimates put the heating proportion as high as 40%. The revenue leakage at this level may be unacceptable to Aurora.

4.7 Tariff rebalancing in Periods 2 and 3

In general no significant tariff rebalancing is envisaged during 2008-09 or 2009-10.

However this statement must be qualified in two main areas:

- If the balance between fixed and variable charges in the Network tariffs varies in Periods 2 or 3 from those published for the immediately preceding Period, then, following the policy objective set out in Section 2.0, the corresponding retail tariffs will be rebalanced to align with the Network tariff, irrespective of the impact on any customers or customer groups; and
- Where the price for a retail tariff has been held down in one Period below what would have been charged if the full impact of the Network tariffs had been passed on, this subsidy will be unwound over subsequent Periods – the aim would be completely to unwind it in the immediately following Period. This will apply to Tariff 34 in Period 2.

The increase for Tariff 34 (Nursing Homes) will be of the order of 20% above the average Period 2 price change.

Since it appears that the relevant future Network tariffs will have a declining block price structure, then the corresponding Retail tariffs will continue to have this characteristic.

4.8 Tariff Assignment and Re-assignment

Whilst it is relevant for a Network business to assign customers to particular tariffs based on such characteristics as size or connection type, no such necessity applies to retail tariffs. In theory, Retail could offer customers a free choice of the cheapest retail tariff for them, irrespective of the Network tariff to which they have been assigned.

However, to do so would not be consistent with the Policy objective of aligning retail tariffs with Network tariffs, and would not be sustainable once customers become contestable, when their competitive contracts would pass through the assigned Network tariff.

Aurora retail will therefore reflect the assigned Network tariff, and the terms & conditions in the tariff it charges retail customers.

4.9 Draft Period 2 Retail Prices and Customer Impacts.

Draft Period 2 Network prices have been provided by Aurora Network. Based on these prices, and applying the formulae and values for Period 2 contained in the Determination, draft Period 2 retail prices have been developed. No draft retail prices are available for Period 3.

Applying the methodology set out in Section 4.3 would result in the following outcomes:

- Residential NMR for Period 2 \$355.6M
- Average uniform residential price increase 4.3%
- Business NMR \$167.4M
- Average uniform business price increase 2.4%

However, within the uniform average price changes are results for particular tariffs, which are inconsistent with the Policy Objectives of tariff profitability and alignment with Network tariffs. In particular, the outcomes below are unacceptable:

- Large residential customers on Tariff 31 (with consumption greater than 6 times the average) indicate negative gross margins of 2%-3%. This occurs because the price of the third step in the Network tariff is 94% of that of the second step, but the price of the third step in the retail tariff is only 88% of the second step.
- The Nursing home tariff, Tariff 34, indicates negative margins of around 24%. This is largely because the retail price for this tariff was held down in Period 1. The larger Nursing homes become contestable in period 2, and it would be inappropriate to offer a tariff with such a negative margin.
- The off-peak tariff without afternoon boost (Tariff 62) indicates negative margins of 3% to 4%. This is because the retail energy price for this tariff is 94% of Tariff 61 (off-peak with afternoon boost) but the energy price in the corresponding Network tariff is the same for both options.
- The night time irrigation tariff (73) indicates negative margins of 16.7%, whilst the day tariff (74) shows positive margins which decline sharply as consumption increases (impact of the daily charge). Taking the two together, at consumptions double the average consumption or more, irrigation earns increasingly negative margins.
- All the demand tariffs (82 to 86) indicate negative margins of between 3% and 7%. Again, because these tariffs apply mainly to customers contestable as at 1/7/2008, these negative margins cannot be permitted to continue.

These negative margin results have been corrected in the following manner (all percentage changes are relative to the uniform average change for that tariff class):

- Residential Tariffs:
 - Increase the price of the third step of Tariff 31 by 7% above the uniform residential average;
 - Increase the energy price of both off-peak tariffs by 4% above the residential average; and
 - Offset the effect of these increases on the residential Notional Revenue by reducing the price of the first energy step of Tariff 31 by 3%.
- Business Tariffs:
 - Increase the price of all the energy steps of Tariff 34 by 28% above the uniform business tariff increase;
 - Increase the irrigation night rate by 17% above the average, but reduce the day rate by 5%.

- Set the demand charges for all the demand tariffs to equal the first step in the corresponding Network tariff;
- Increase the daily charge for all demand tariffs by 4% above the average;
- Increase the energy rate for the obsolete demand tariffs (83 and 86) by 11% above the business average;
- Increase the energy rate for the kVA demand tariffs (82 and 85) by 7% above the average; and
- Offset the effect of these changes on the business Notional revenue by reducing the daily charge for Tariff 22 by 24% relative to the average increase.

Following these changes all tariffs demonstrate positive gross margins.

Draft Period 2 retail prices are shown below, including GST:

Table 7: Draft period 2 Prices

Tariff	Daily charge	Energy Step 1	Energy Step 2	Energy Step 3	Demand Step 1
	c/day	c/kWh	c/kWh	c/kWh	\$/kW or kVA pa
22	56.133	23.153	16.997		
31	66.616	18.644	18.380	16.764	
33	56.133	23.153	16.997		
34	91.210	25.926	20.158	16.960	
36	56.133	23.153	16.997		
41	12.627	11.084	11.084		
42	12.627	11.084			
43	12.627	11.084			
54	163.230	12.082			
55	69.331	20.993			
61	16.000	9.099			
62	16.000	8.569			
73		10.013			
74	213.056	18.503			
82	207.940	10.677			133.872
83	207.940	11.076			175.692
85	203.950	9.399			80.569
86	203.950	9.750			94.332

These draft prices represent percentage changes over the January-June 2008 prices as shown below:

Table 8: Draft price changes Period1 – Period 2

Tariff	Daily charge	Energy Step 1	Energy Step 2	Energy Step 3	Demand Step 1
22	-22.5%	2.4%	2.4%		
31	4.3%	0.7%	4.3%	11.6%	
33	-22.5%	2.4%	2.4%		
34	2.4%	31.0%	31.0%	31.0%	
36	-22.5%	2.4%	2.4%		
41	4.3%	4.3%	4.3%		
42	4.3%	4.3%			
43	4.3%	4.3%			
54	2.4%	2.4%			
55	2.4%	2.4%			
61	4.3%	8.5%			
62	4.3%	8.5%			
73		19.8%			
74	2.4%	-2.8%			
82	6.5%	9.5%			4.7%
83	6.5%	13.6%			8.3%
85	6.5%	9.5%			5.7%
86	6.5%	13.6%			-1.6%

Impacts on typical customers are provided overleaf.

4.9.1 Residential Impacts

Table 9: Residential price Impacts – Period 2

Customer Type	Typical Quarterly kWh	Tariff 31 kWh	Tariff 41 kWh	Tariff 42 kWh	Off-peak kWh	% Change over 2007	% Change over H1 2008
Small residential	202	202				7.1%	2.9%
Small residential	1,213	646	567			13.0%	3.0%
Small residential	2,063	860	681		522	14.4%	3.9%
Small residential	1,878	738		1140		15.3%	3.3%
Small residential	2,587	924		1019	644	16.0%	4.1%
Medium residential	635	635				11.1%	2.4%
Medium residential	1,837	1058	779			13.9%	3.4%
Medium residential	2,897	1135	778		984	15.2%	4.4%
Medium residential	2,748	1038		1710		15.7%	3.6%
Medium residential	3,561	1226		1425	910	16.3%	4.3%
Large residential	1,268	1268				13.0%	3.2%
Large residential	2,577	1500	1077			14.5%	3.6%
Large residential	3,991	1500	961		1530	15.8%	4.7%
Large residential	3,814	1431		2383		15.9%	3.8%
Large residential	4,637	1500		1849	1288	16.5%	4.5%

It should be noted that very large Tariff 31 customers could experience price increases in 2008-09 approaching 11.6%, following increases in January 2008 of 25% to 35%.

4.9.2 Business Impacts

4.9.2.1 SME Impacts

Table 10: Business Customer Impacts – Period 2

Customer Type	Typical Quarterly kWh	Tariff 22,33,or 36 kWh	Tariff 43 kWh	Off-Peak kWh	% change over 2007	% change over H1 2008
Small	165	165			13.9%	-13.5%
Small	3,855	2,322		1,532	16.6%	0.9%
Small	1,872	1,009	863		17.4%	-1.6%
Small	7,030	3,291	1,669	2,070	17.3%	2.1%
Medium	972	972			15.4%	-4.0%
Medium	7,758	5,469		2,290	16.5%	1.9%
Medium	5,838	4,518	1,320		16.5%	1.0%
Medium	14,861	10,330	2,019	2,512	16.7%	2.4%
Large	3,893	3,893			15.8%	0.1%
Large	18,812	13,506		5,306	16.6%	2.7%
Large	15,680	12,726	2,954		16.3%	2.0%
Large	29,984	22,095	3,400	4,489	16.5%	2.6%

4.9.2.2 Nursing Home Impacts

Table 11: Nursing Home Impacts – Period 2

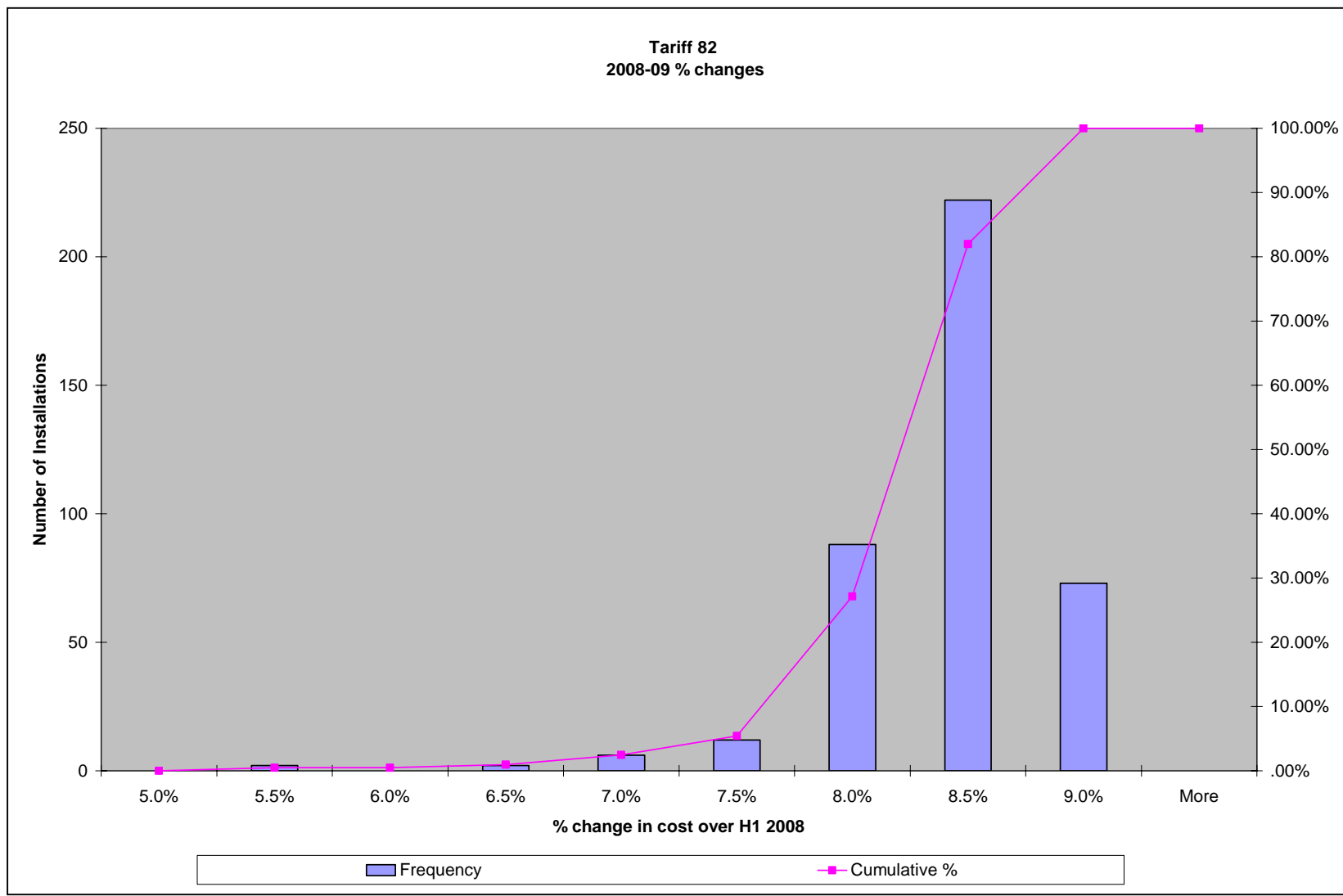
Customer Type	Typical Quarterly kWh	Tariff 34 kWh	Tariff 43 kWh	Off-Peak kWh	% Change over 2007	% change over H1 2008
Small	26,772	26,772			20.1%	30.4%
Small	80,412	61,006		19,406	20.3%	27.1%
Small	19,230	16,339	2,891		19.8%	26.8%
Small	88,268	59,265	17,066	11,937	19.8%	24.2%
Medium	168,000	168,000			20.4%	30.9%
Medium	186,200	145,883		40,317	20.4%	27.7%
Medium	81,750	64,288	17,462		19.8%	26.0%
Medium	108,078	68,954	20,334	18,790	19.8%	23.6%
Large	277,500	277,500			20.4%	31.0%
Large	371,803	292,409		79,393	20.5%	27.8%
Large	114,159	90,371	23,788		19.8%	26.1%
Large	171,588	117,350	26,181	28,057	20.0%	24.8%

4.9.2.3 Irrigation Impacts

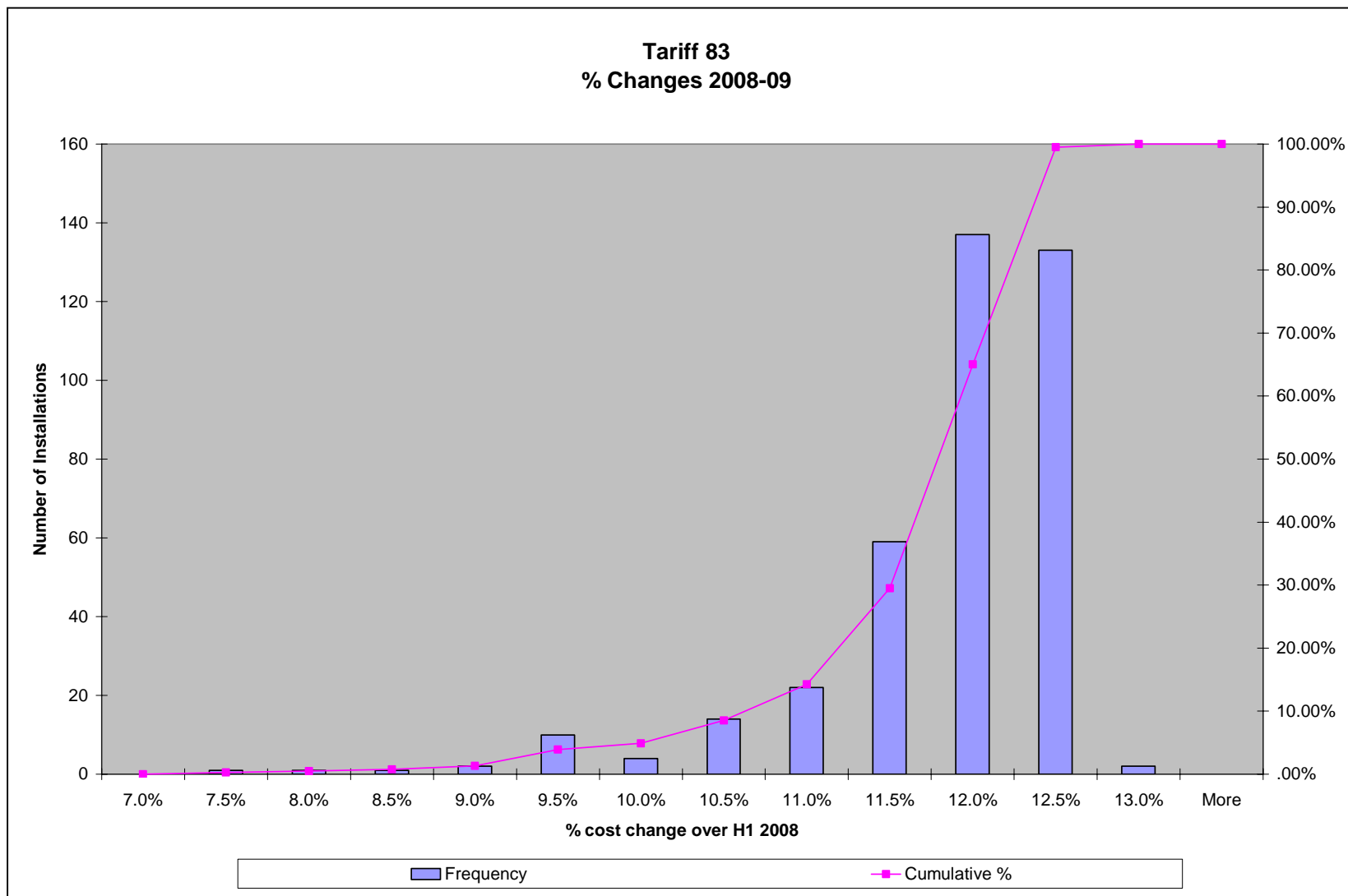
Table 12: Irrigation Impacts – Period 2

Customer Type	Typical Quarterly kWh	Night kWh	Day kWh	% Change over 2007	% change over H1 2008
Small	2,407	1,271	1,136	15.9%	3.8%
Medium	6,920	4,035	2,885	15.9%	5.2%
Large	14,309	8,184	6,125	15.9%	5.3%

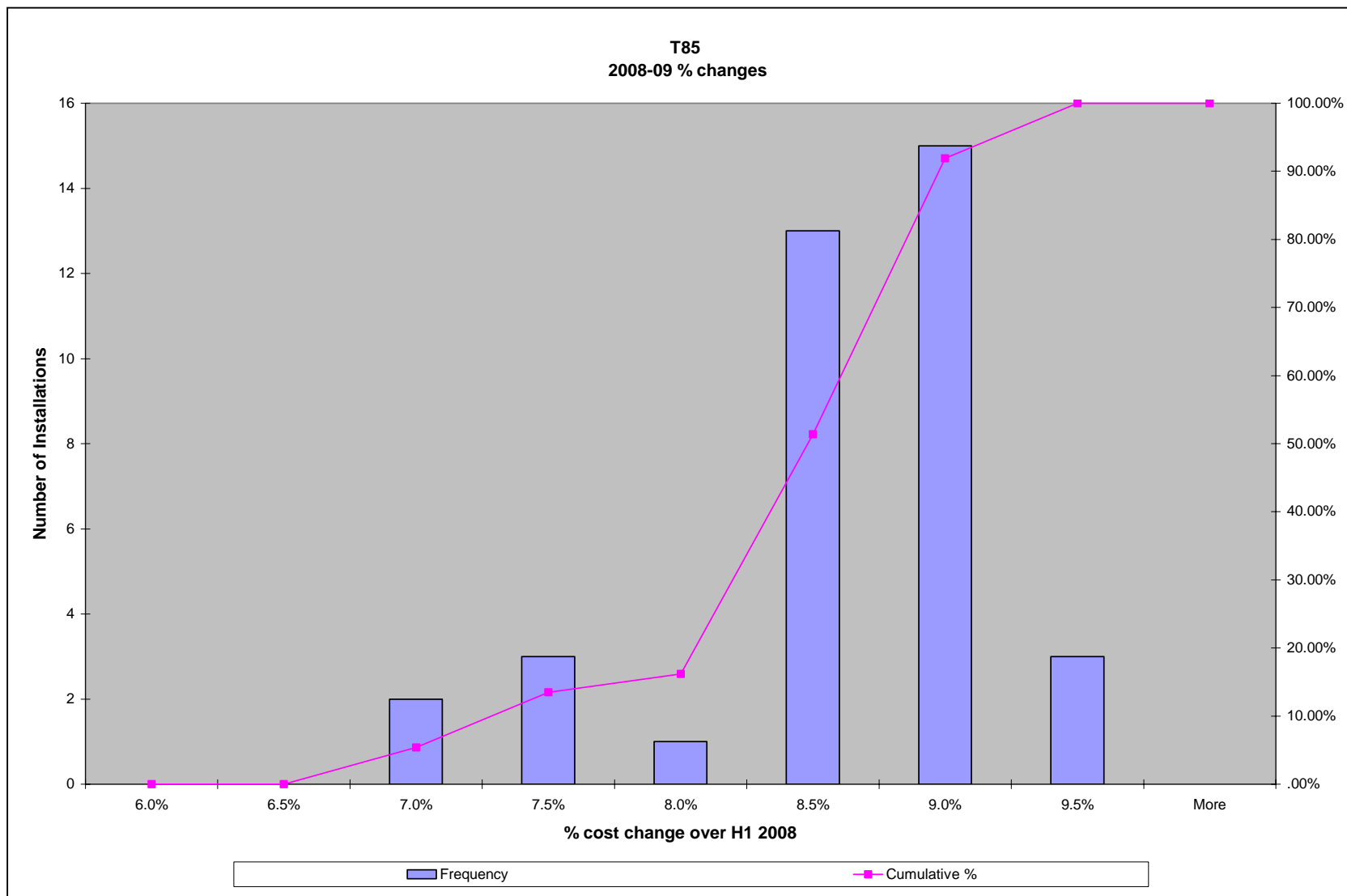
4.9.2.4 Tariff 82 (LV kVA Demand)



4.9.2.5 Tariff 83 (LV kW Demand – obsolete)



4.9.2.6 Tariff 85 (HV kVA Demand)



4.9.2.7 Tariff 86 (HV kW Demand – Obsolete)

