Retail Tariff Strategy V2

Periods 2 and 3

1/7/2008 to 30/6/2009 (Period 2)
1/7/2009 to 30/6/2010 (Period 3)

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1 Summary

On 14 March 2008, Aurora Retail published a Draft Retail Tariff Strategy for the Period 1/7/2008 to 30/6/2010, and underwent a consultation process that closed on 11 April 2008.

Following that consultation, Aurora published a Final Strategy on 15 May 2008. This Version 2 of the Final Retail Tariff Strategy adopts changes arising from subsequent revisions to Network tariffs and their conditions and from informal feedback from the Regulator.

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.

None of these overarching policy aims have been revised as a result of consultation.

This document should be read in conjunction with the Draft Retail Tariff Strategy and the Final Network Tariff Strategy and Pricing Proposal.

1.1 Consultation details

Aurora implemented a public consultation process to ensure interested parties were aware of the draft retail strategy and had the opportunity to make comment.

Newspaper advertisements explained the process for public comment. These advertisements were placed on 14 March 2008 and advised that the Draft Retail Strategy was available on the Internet, or by calling a direct line where they could ask to be sent a full copy of the paper. Submissions were encouraged from all interested parties and respondents were given one month, which was until 11 April, to respond.

Submissions by email were encouraged and a web site was established to take these papers. Written submissions by mail were also permitted and contact details were included in the press advertisement.

Aurora received one formal submission on the Draft Retail Pricing Strategy from Aged and Community Services Tasmania. They raised objection to cost increases on the basis that they were not like other retail operations and that an increase in costs in preparation for competition was unwarranted. Aurora arranged a meeting with them and explained the basis for the price increases. Since that meeting, Aurora's network prices have reintroduced a special tariff for nursing homes so as to lessen the impact.

Aurora also sought feedback from various representative groups through direct contact. Meetings were held with the Tasmanian Council of Social Services [TasCOSS], the Tasmania Chamber of Commerce and Industry [TCCI], the Launceston Chapter of the Independent Retirees Association and the Howrah Rotary Club. There were no formal representations made following these meetings.

1.2 The 1 January 2008 price reset

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 approximately 20%.

Period 2 Network Tariffs have been made available by Aurora Network. Proposed Period 2 retail tariffs, based on these Network tariffs, have been developed and customer impacts are shown in Section 4.9. The proposed retail tariffs assume that the Network tariffs included in the Network Tariff Pricing Proposal are approved as submitted and also that the Distribution NEM Entry costs Submission is approved in full.

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 reduce the value of curtilage discounts from 1/7/2008 at a rate of 10% per annum, and prohibit new discounts, so that this discount is removed after ten years.
- 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.
- To change the times for irrigation night and day rates to reflect the relevant network tariff conditions as shown in Section 4.6.5 below.
- To permit residential hot water customers to connect a single small cylinder to tariff 41/42, either as a stand alone cylinder or in addition to a larger one which fulfils the current heat rating requirements. See Section 4.6.5.
- To delete the obsolete Tariff 54 (Section 4.6.5)

Except for the reduction in curtilage discounts and the changes to Tariffs 82 and 85, the proposed changes will benefit customers through providing greater flexibility in their choice of tariffs. In 2008-09 each curtilage installation will see an increase in their account of about $23 per annum.

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, 'Final Network Tariff Strategy' which is available at the Aurora Energy website.

3 Policy Objectives of the Final 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.

The principles did not change as a result of the consultation undertaken.

4 Final 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.
c) These calculations will be covered in the Retail Tariff Pricing Proposal.

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 Network tariffs applicable during Period 1.

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. The Draft Strategy gave the example in the Table below comparing 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 - 1st 500 kWh/quarter	17.989 c/kWh	10.811 c/kWh	6.883 c/kWh	+0.295 c/kWh
Energy Charge – 2nd 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 July 2008.

As a result of this consultation between both the Retail and Network Divisions of Aurora and the Aged and Community Services, it has been decided to introduce a sub-Network tariff (Tariff N02a) specifically for Nursing Homes for Periods 2 and 3 which will include lower priced energy steps than the general business network tariff N02. This will mitigate the price change for nursing homes in Period 2. It is expected that, over time, Tariff N02a will transition to Tariff N02. Aurora's retail tariff for nursing homes will reflect this transition.

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 have been addressed in Attachment A to Aurora's Retail Tariff Pricing Proposal, which was submitted to the Energy Regulator on 16 June 2008 (for Period 2).

4.5 Fixed and Variable Charges

In general, the relative incidence of fixed and variable charges in the retail tariffs does not significantly change in Period 2 from that applying in Period 1. However, where the structure of the relevant network tariff differs from that of the former retail tariff, there may be some slight changes of incidence. This particularly applies to the demand tariffs. Also, there is a significant reduction in the daily charge for Tariff 22 relative to the changes in the energy rates. This has been necessary to comply with the business NMR limit. Table 7 in S4.10 clearly shows any changes in the relative incidence of fixed and variable charges.

4.6 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.

4.6.1 Preamble

Three 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. Reflecting the time definitions given in Aurora Network's General Network Terms and Conditions (Aurora Network Pricing Proposal S3.18), this item will state that any reference to times means Eastern Standard Time.

c) Cross reference will be made to Aurora's Network Tariff terms and conditions.

4.6.2 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	• Electrical energy for all purposes • Low voltage only	Not restricted
T33	Institutional Light & Power	43; 61 or 62	• 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	• 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 10% with effect from 1 July 2008, and removing them over a ten year period. This change will be given effect by changes to the wording of the current condition (c) in Tariff 36. No new curtilage discounts will be given after 1/7/2008. The typical curtilage customer will see an annual cost increase of $20 in Period 2.

4.6.3 Off Peak Tariff 61

The conditions for off-peak tariffs will be amended to reflect the conditions of the controlled heating Network tariff – N06.

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 in Condition (b) (ii) is deleted in line with the new conditions of the restructured Tariff 22.

The General Conditions for Off peak Supply are amended to reflect the conditions of Network Tariff N06.

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.

4.6.4 Off-Peak Tariff 62

The conditions will be changed to reflect the restructuring of Tariffs 22, 33 and 36.

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

Tariff 31.

Condition (d) will be deleted to reflect the Network proposal that no new curtilage discounts will be given.

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)

The Draft Retail Tariff Strategy stated that:

> *"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."*

Initially, the Network Pricing Proposal for the relevant Network Tariff (LV Uncontrolled Energy – N05) retained the previous restrictions on cylinder size and heating rating. However, following discussions between Aurora Retail and Aurora Network, the proposed conditions of Network tariff N05 have been revised to permit households to connect a single small hot water cylinder to this network tariff (and so to retail tariffs 41 or 42). The small cylinder may be the only cylinder in the premises or may be additional to a large cylinder which complies with the current heating rating limits. The precise wording of the revised condition is contained in the Retail Pricing Proposal V2.

Irrigation Tariff (Tariff 73/74)

The Aurora Network Pricing Proposal includes terms and conditions for the "LV Day/Night (Irrigation) Tariff (N08)" in which the time definition differs from that currently included in the equivalent retail tariff. The retail terms will be changed to reflect this by specifying that the night rate is to be available;

> *"for not less than 10 hours between 8pm and 7am. In general the night rate will be available for 10 hours, but subject to network constraints and at Aurora's discretion, an 11 hour window may be available on request. For individual customers the starting and finishing times for the night rate will be staggered and may commence at any time between 8pm and 9pm and end at any time between 6am and 7 am, subject to the 10 hour minimum availability."*

This wording will replace the current retail condition that the night rate is available between 8pm and 7am.

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 approval will be sought to remove it from the Tariff Schedule from 1 July 2008.

4.6.6 Customer Impacts of changes to terms and conditions

The customer impacts of the reduction in curtilage discounts are given in S4.5.2, and the change in demand charging for the kVA demand tariffs is covered in S4.6.5 above. Apart from these changes, 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 4.8 below.

4.7 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 potential 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).

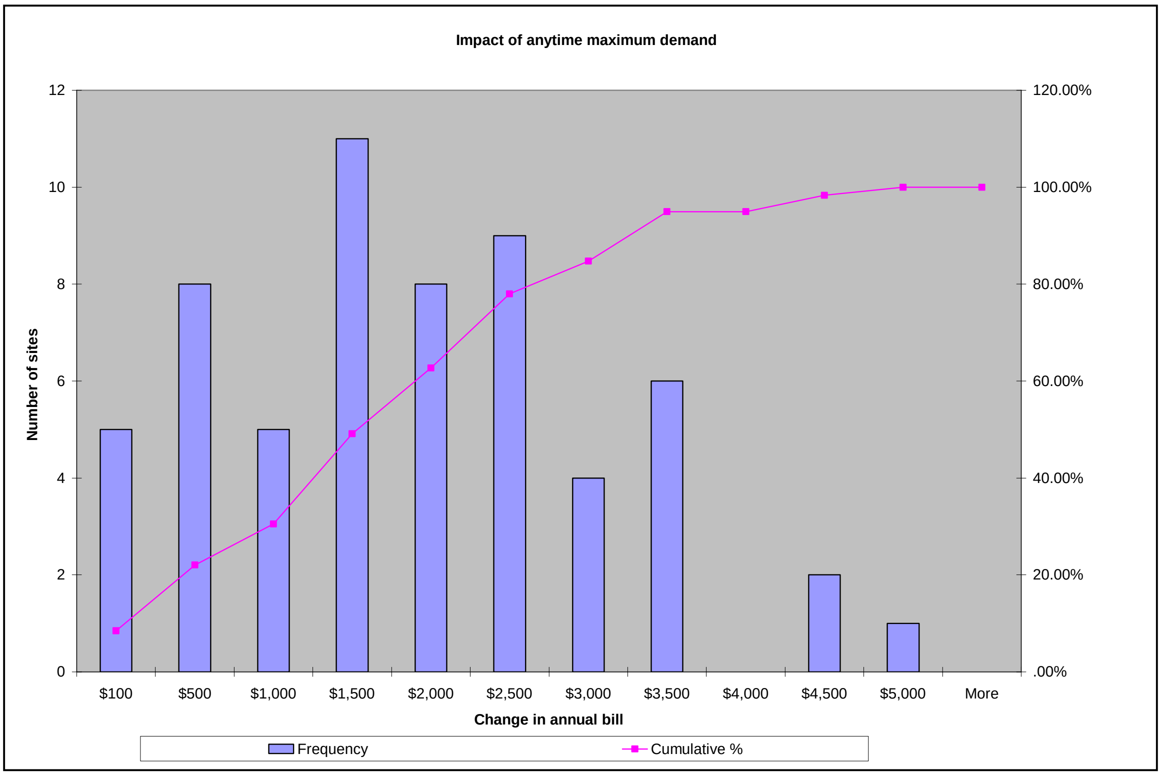
Because the potential savings (and, therefore, revenue loss to Aurora) could be substantial, Aurora will not be able to commit to introducing such changes until it has evaluated the revenue impacts in some detail. The major issue here is that data on the heating proportion of small business load is sparse, 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.

At present, the retail kVA demand tariffs, Tariff 82 (LV) and Tariff 85 (HV) charge only the maximum demand registered between 7am and 8 pm. If a higher maximum demand is registered outside these times, it is ignored for charging purposes.

The relevant network tariffs (N09 and N10) to apply from 1/7/2008 will charge for demand on an "any-time" basis. Therefore, following the strategic principle that retail tariffs should reflect the structure and pricing of the related network tariffs, it is intended that retail Tariffs 82 and 85 will charge demand on an anytime basis in Period 3.

This change was not canvassed specifically in the Draft Retail Tariff Strategy because this aspect of the network tariff was not appreciated at that time.

This change affects some 500 installations. Of these there are 14 sites which will not be contestable in Period 3 whose average annual off-peak demand exceeds the average peak demand. These customers will experience additional costs. The median extra cost will be around $1,500 pa, with 90% seeing less than $3,500 pa as shown in the following chart:



Aurora's Final Network Tariff Strategy indicates that a LV time of use network tariff will be introduced, after consultation, in Period 3. Retail tariffs or products will be developed on the basis of this new network tariff.

4.8 Tariff rebalancing in Periods 2 and 3

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

However, 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. Table 7 in Section 4.10 indicates the extent of any departures from uniform price changes.

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.

4.9 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.

4.10 Draft Period 2 Retail Prices and Customer Impacts.

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.

The proposed retail tariffs assume that the Network tariffs included in the Network Tariff Pricing Proposal are approved as submitted.

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

- Residential NMR for Period 2 $354.8M
- Average uniform residential price increase 4.0%
- Business NMR $166.0M
- Average uniform business price increase 1.0%

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 need addressing:

- The Nursing home tariff, Tariff 34, indicates negative margins of around 5%. 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 marginally negative margins. 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 19.0%, whilst the day tariff (74) also shows increasing negative margins as consumption increases (impact of the daily charge). Taking the two together, at any consumption level irrigation earns negative margins.
- All the demand tariffs (82 to 86) indicate negative margins of between 2% and 5%. 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 energy price of both off-peak tariffs by 2% 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 0.1%.

- Business Tariffs:
  - Increase the price of all the energy steps of Tariff 34 by 6% above the uniform business tariff increase;
  - Increase the irrigation night and day rates by 4% above the average. In the Draft Retail Tariff Strategy, it was envisaged that the day rate would fall slightly to partially offset the increase in the night rate. However, the final network tariff does not permit that to happen.
  - 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 2% above the average;
  - Increase the energy rate for the obsolete demand tariffs (83 and 86) by 7% above the business average;
  - Increase the energy rate for the kVA demand tariffs (82 and 85) by 5% above the average; and
  - Offset the effect of these changes on the business Notional revenue by reducing the daily charge for Tariff 22 by 12% relative to the average increase.

Following these changes all tariffs demonstrate positive gross margins.

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

Table 6: Proposed 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	64.139	22.829	16.759		
31	66.414	19.236	18.324	15.620	
33	64.139	22.829	16.759		
34	89.934	21.170	16.459	13.848	
36	64.139	22.829	16.759		
41	12.588	11.050	11.050		
42	12.588	11.050			
43	12.588	11.050			
55	68.361	20.700			
61	15.951	8.897			
62	15.951	8.379			
73		8.767			
74	210.076	19.954			
82	201.088	10.331			143.998
83	201.088	10.528			182.775
85	197.230	9.094			82.111
86	197.230	9.268			102.543

Note: While prices are shown for Tariffs 33 and 36, they are the same as Tariff 22. It is not intended to publish prices for Tariffs 33 and 36 (see S4.5.2).

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

Table 7: Draft price changes Period1 – Period 2

Tariff	Daily charge	Energy Step 1	Energy Step 2	Energy Step 3	Demand Step 1
22	-11.5%	0.9%	0.9%		
31	4.0%	3.9%	4.0%	4.0%	
33	-11.5%	0.9%	0.9%		
34	0.9%	7.0%	7.0%	7.0%	
36	-11.5%	0.9%	0.9%		
41	4.0%	4.0%	4.0%		
42	4.0%	4.0%			
43	4.0%	4.0%			
55	0.9%	0.9%			
61	4.0%	6.1%			
62	4.0%	6.1%			
73		4.9%			
74	0.9%	4.9%			
82	2.9%	6.0%			12.6%
83	2.9%	8.0%			12.6%
85	2.9%	6.0%			7.8%
86	2.9%	8.0%			6.9%

Impacts on typical customers are provided overleaf.

For the demand tariffs, customer impacts are shown only for non-contestable customers in Tranches 4 and 5.

4.10.1 Residential Impacts

Table 8: 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%	4.0%
Small residential	1,213	646	567			13.0%	4.0%
Small residential	2,063	860	681		522	14.4%	4.2%
Small residential	1,878	738		1140		15.3%	4.0%
Small residential	2,587	924		1019	644	16.0%	4.3%
Medium residential	635	635				11.1%	4.0%
Medium residential	1,837	1058	779			13.9%	4.0%
Medium residential	2,897	1135	778		984	15.2%	4.4%
Medium residential	2,748	1038		1710		15.7%	4.0%
Medium residential	3,561	1226		1425	910	16.3%	4.3%
Large residential	1,268	1268				13.0%	4.0%
Large residential	2,577	1500	1077			14.5%	4.0%
Large residential	3,991	1500	961		1530	15.8%	4.5%
Large residential	3,814	1431		2383		15.9%	4.0%
Large residential	4,637	1500		1849	1288	16.5%	4.3%

4.10.2 Business Impacts

4.10.2.1 SME Impacts

Table 9: 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%	-7.0%
Small	3,855	2,322		1,532	16.6%	0.7%
Small	1,872	1,009	863		17.4%	-0.4%
Small	7,030	3,291	1,669	2,070	17.3%	1.6%
Medium	972	972			15.4%	-2.3%
Medium	7,758	5,469		2,290	16.5%	1.1%
Medium	5,838	4,518	1,320		16.5%	0.6%
Medium	14,861	10,330	2,019	2,512	16.7%	1.3%
Large	3,893	3,893			15.8%	-0.2%
Large	18,812	13,506		5,306	16.6%	1.4%
Large	15,680	12,726	2,954		16.3%	1.0%
Large	29,984	22,095	3,400	4,489	16.5%	1.4%

4.10.2.2 Nursing Home Impacts

Table 10: Nursing Home Impacts – Period 2

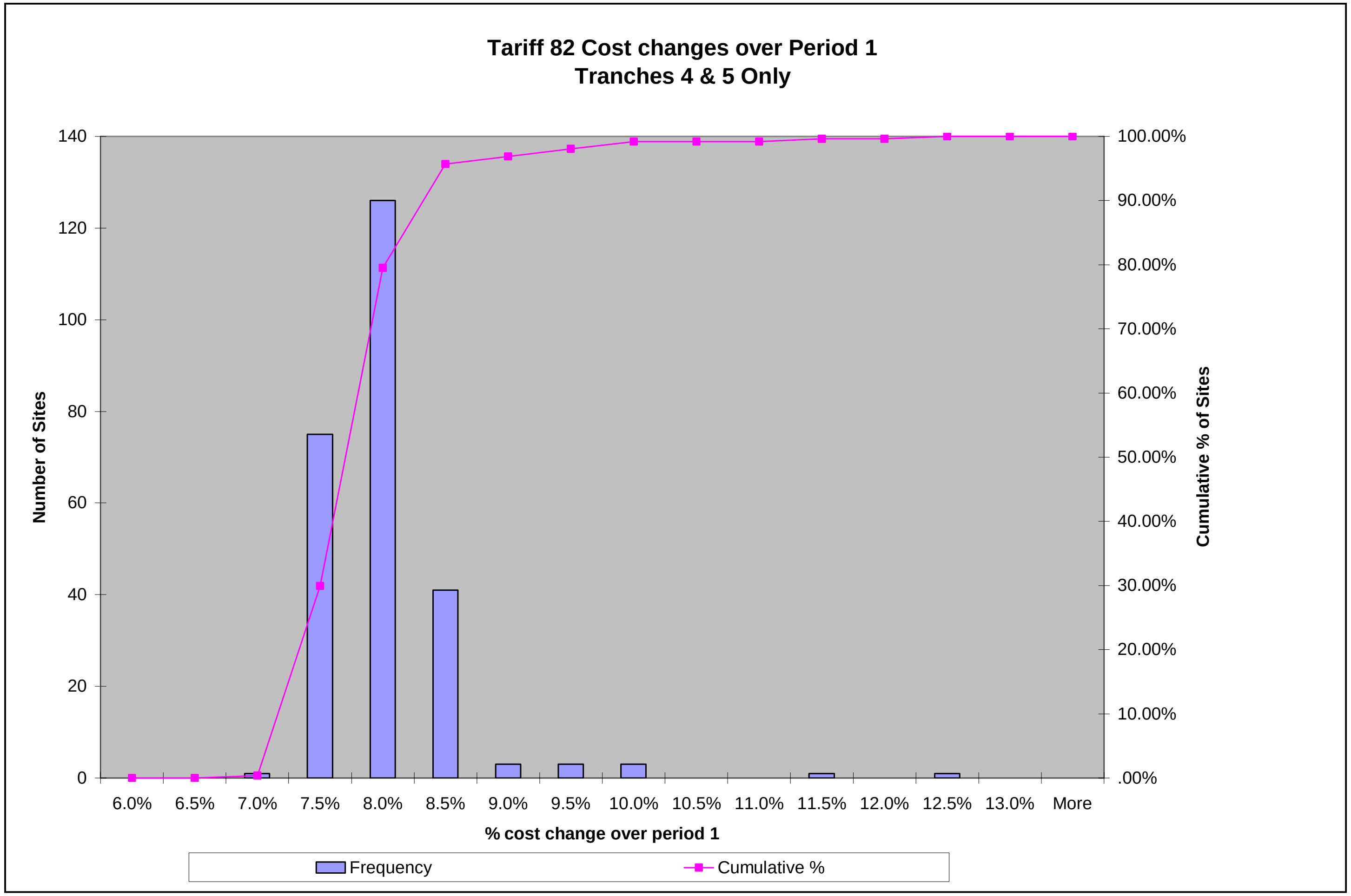
Customer Type	Typical Quarterly kWh	Tariff 34 kWh	Tariff 43 kWh	Off-Peak kWh	% Change over 2007	% change over H1 2008
Small	26,772	26,772			20.1%	6.8%
Small	80,412	61,006		19,406	20.3%	6.8%
Small	19,230	16,339	2,891		19.8%	6.4%
Small	88,268	59,265	17,066	11,937	19.8%	6.3%
Medium	168,000	168,000			20.4%	7.0%
Medium	186,200	145,883		40,317	20.4%	6.8%
Medium	81,750	64,288	17,462		19.8%	6.4%
Medium	108,078	68,954	20,334	18,790	19.8%	6.3%
Large	277,500	277,500			20.4%	7.0%
Large	371,803	292,409		79,393	20.5%	6.8%
Large	114,159	90,371	23,788		19.8%	6.4%
Large	171,588	117,350	26,181	28,057	20.0%	6.5%

4.10.2.3 Irrigation Impacts

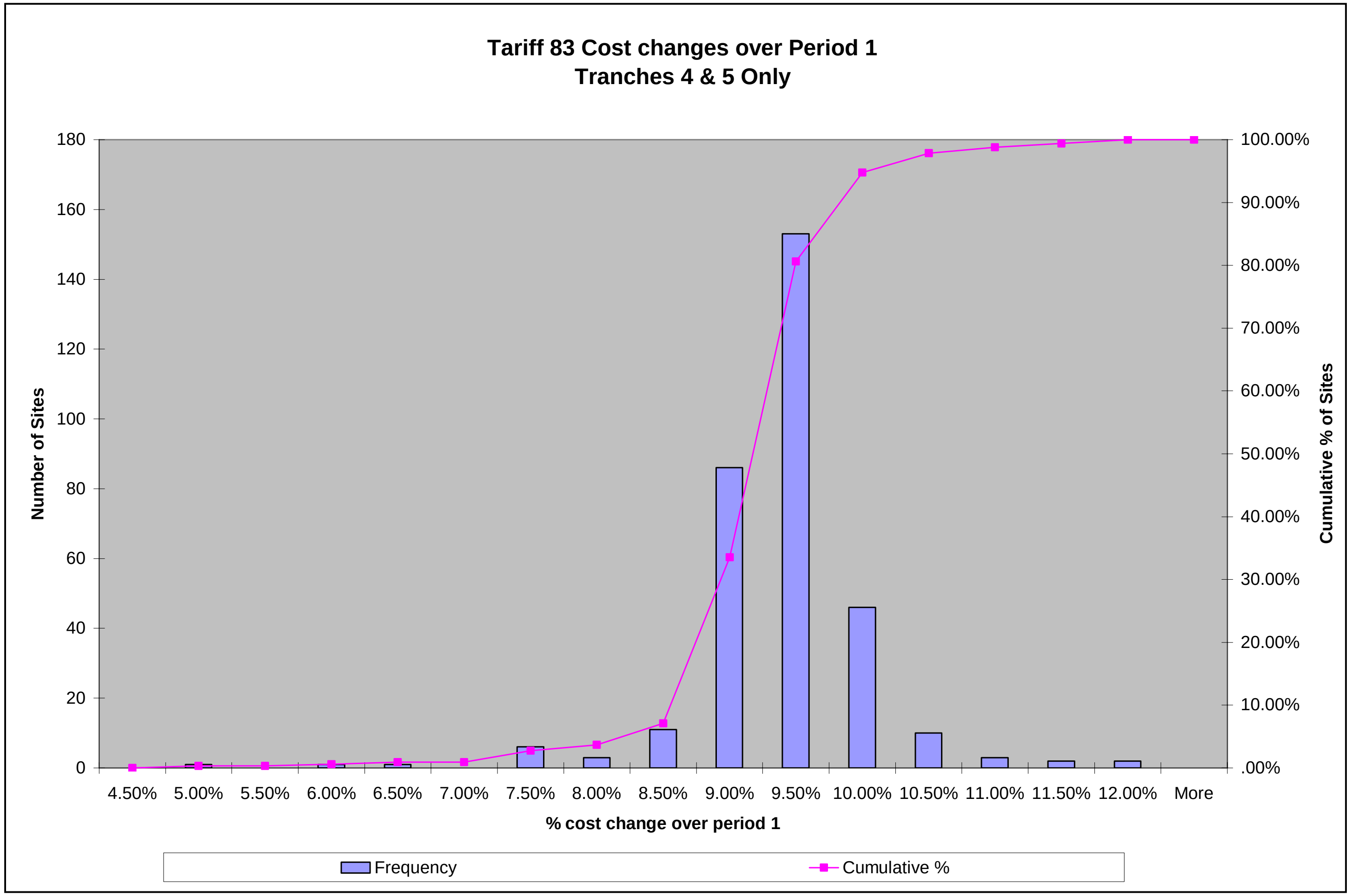
Table 11: Irrigation Impacts – Period 2

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%	3.4%
Medium	6,920	4,035	2,885	15.9%	4.2%
Large	14,309	8,184	6,125	15.9%	4.5%

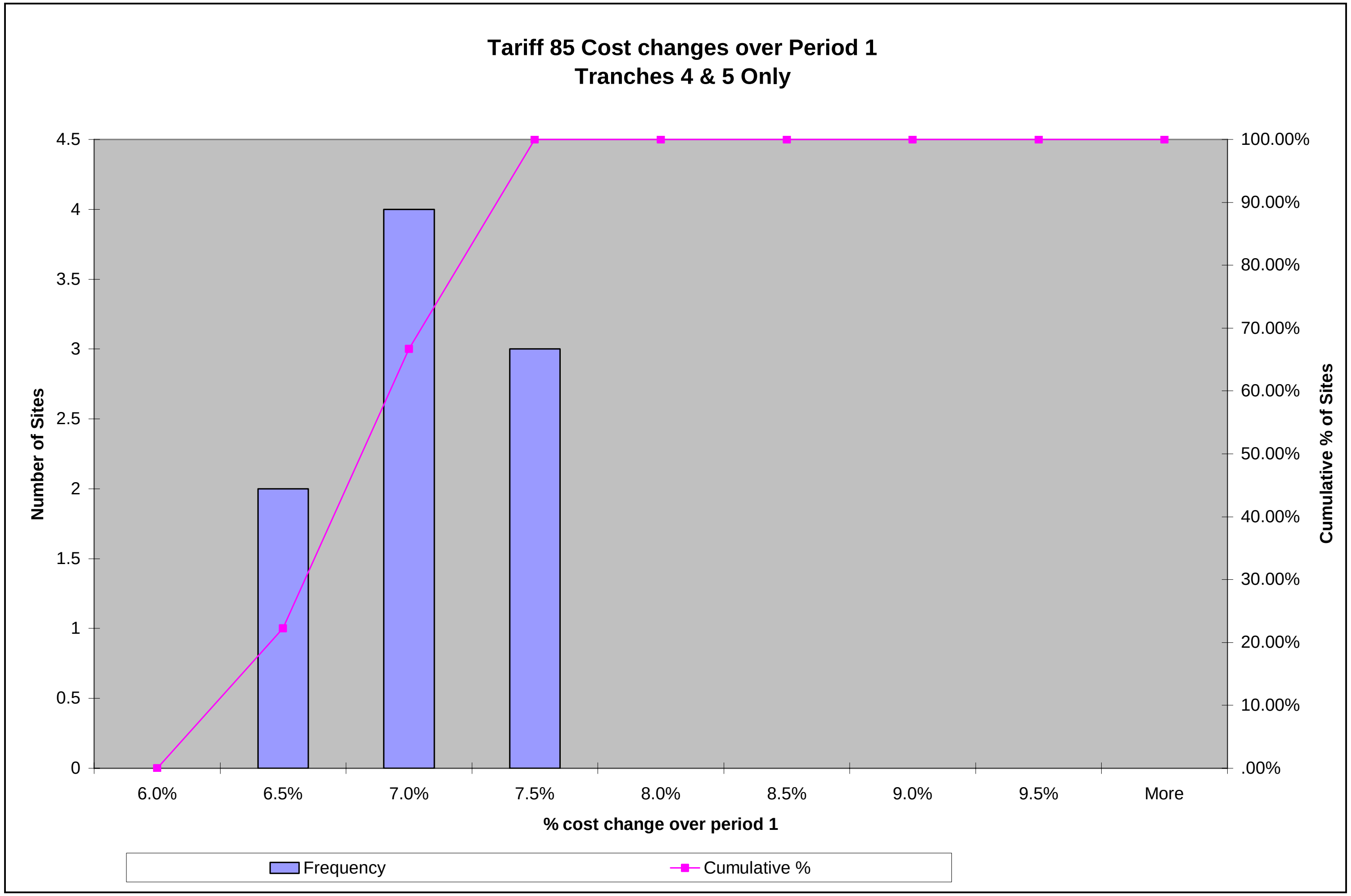
4.10.2.4 Tariff 82 (LV kVA Demand)



4.10.2.5 Tariff 83 (LV kW Demand – obsolete)



4.10.2.6 Tariff 85 (HV kVA Demand)



4.10.2.7 Tariff 86 (HV kW Demand – Obsolete)