



13 October 2023

Julie Thompson
Secretary
Legislative Council Sessional Committee Government Administration A
Parliament of Tasmania
Parliament House
HOBART TAS 7000

Dear Secretary

Aurora Energy Submission to Inquiry into Energy Prices in Tasmania

Please find attached Aurora Energy's submission to the Legislative Council 'Inquiry into Energy Prices in Tasmania'.

If you have any questions regarding the submission, please contact Giles Whitehouse, Corporate Affairs Manager, in the first instance: giles.whitehouse@auroraenergy.com.au

Yours sincerely

A handwritten signature in blue ink, appearing to read "Nigel Clark".

Nigel Clark
Chief Executive Officer



SUBMISSION TO LEGISLATIVE COUNCIL INQUIRY INTO ENERGY PRICES IN TASMANIA

13 OCTOBER 2023

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EXECUTIVE SUMMARY

Aurora Energy welcomes the opportunity to provide a submission to the Inquiry into Energy Prices in Tasmania (the Inquiry) that has been established by the Legislative Council Sessional Committee Government Administration 'A' (the Committee).

The Australian energy market is undergoing a significant transition as it attempts to address the goals of the energy 'trilemma' of affordable, reliable, and secure energy supplies, all whilst managing the move towards cleaner energy generation sources. Tasmania is not exempt from this challenge with all elements of the trilemma paramount to ensuring residential and small business customers are supported in their use of energy.

In Tasmania, electricity is the dominant energy source utilised in customer homes. Given most Tasmanians make use of regulated electricity products, the focus of power price issues for small customers will be on the outcomes associated with regulated prices overseen by the Tasmanian Economic Regulator (Regulator).

Regulated retail prices are composed of a range of cost components covering wholesale, network, metering, renewable, market and retail costs. Notably, Aurora Energy's retail cost component represents only 11 per cent of the total retail price stack and this has been a declining percentage of the overall stack in recent years.

At present, Tasmanian regulated electricity prices are amongst the lowest in the nation yet, environmental and structural challenges ensure affordability remains a critical issue for the state. This is due to Tasmania's cool winter climate and the electrification of most Tasmanian heating sources in homes and businesses, which can result in high levels of electricity consumption.

Notably, the most recent price increase of 9.51 per cent (on average) in Tasmania, whilst unwelcomed, was far lower with energy customers around the country experiencing much higher price hikes, many in the vicinity of 20-29 per cent.

In real terms, over the last decade, electricity prices have decreased by 13.8 per cent for residential prices and 23.5 per cent for small businesses. When the low unit prices of energy are taken into consideration, it is clear that the greatest benefit in managing power price outcomes will come from measures outside of direct price control, such as targeted assistance, tariff reform, energy literacy and energy efficiency.

Presently there is a range of effective support measures in place including payment extensions, payment plans, direct financial assistance through the Aurora Customer Support Fund and relief through Aurora Energy's nationally recognised Your Energy Support (YES) program, which provides tailored support for customers in hardship.

In addition, there is targeted support from the State and Commonwealth Government through \$90M in bill relief to eligible households and small businesses from 1 July 2023, with households to receive \$250 annually over two years and small businesses \$650 in 2023-24. Tasmania also has some of the highest energy concessions of any Australian jurisdiction and in 2023-24 residential customers will receive total bill relief of \$880.

Aurora Energy recognises the expectations and needs for customers when interacting with their energy provider are evolving. To address this, Aurora Energy created a digital energy management platform, aurora+ that uses real time data via an advanced meter to provide customers with greater control and visibility of their energy use. Over 75,000 Tasmanians now use aurora+; nearly a third of the Aurora Energy customer base.

Aurora Energy has also significantly progressed the deployment of advanced meters in line with the State Government's commitment to complete this rollout by the end of 2026. Advanced meters bring multiple benefits for customers, particularly in the form of interval data and remote readings which have resolved historically challenging access issues. Over 63 per cent of Aurora Energy customers now have an advanced meter.

As the Regulated Offer Retailer for Tasmania, Aurora Energy plays a vital role in supporting customers as they manage their electricity bills. However, Aurora Energy is also subject to national market regulation and its reform programs that in recent years have driven material and large-scale operational change to the business. By comparison to mainland energy retailers with extended customer bases across which costs can be spread, there is a much lower level of capacity within Aurora Energy to be able to invest in information technology and business infrastructure as well as its ongoing core customer support services.

Consequently, Aurora Energy now bears an expanded and more onerous set of regulatory obligations, which reflects a trend of increasing risks being borne by retailers across the National Electricity Market (NEM). Critically, these market and regulatory driven changes are outside of Aurora Energy's control.

Despite persisting market and operational challenges, Aurora Energy will continue to support customers in managing the impacts of power prices as well as offering services such as aurora+ that can provide greater visibility and control when managing energy bills.

Aurora Energy encourages the Inquiry to take a broad view of all the underlying elements that come together to produce a final retail power price, but more importantly, that the solutions to power price impacts are not exclusively found in a direct action on those prices. Moreover, that regulated power prices do move up and down over time and that recent history of Tasmania has delivered price increases well below inflation.

1 PURPOSE

This submission seeks to address the terms of reference outlined by the Committee with specific regard for the establishment of the retail prices that are applied to Tasmanian energy consumers through Aurora Energy products and services.

Aurora Energy notes that the Inquiry scope covers residential and small business customers, as well as gas and electricity consumers. Given the near entirety of Tasmanians make use of regulated electricity products, this submission will focus on electricity prices and outcomes under the framework overseen by the Regulator.

The following sections outline the key elements of retail power price regulation in Tasmania, the outcomes associated with retail prices, and the range of support measures provided to customers to manage power price impacts.

2 MARKET CONTEXT

Key observations:

- The Australian energy market is undergoing a significant transition as it attempts to address the goals of the energy 'trilemma' of affordable, reliable, and secure energy supply whilst managing the move towards cleaner energy generation sources.
- Tasmania is not exempt from this challenge with all elements of the trilemma paramount to ensuring both residential and small business customers are supported in their use of energy.
- Nearly the entirety of Tasmanian residential and small business customers are either on a regulated electricity retail price or use a price linked to a regulatory price.

2.1 NATIONAL

There is an ongoing transformation of the Australian energy system that is shaping outcomes for all participants, including generators, distributors, retailers and customers. Critical decisions are being taken and targets are being set to facilitate a future market based predominantly, if not solely, on clean renewable energy.

The overwhelming outcome of this transition is progressive closure of older fossil fuel-based generators and a marked growth in utility scale renewable energy generation in the form of wind, solar and hydro-electricity. Less intensive fossil fuels such as natural gas are also coming under greater scrutiny despite the long-held position of gas being a transitional fuel to support the renewable energy transformation.

The push for clean renewable energy is one with impacts that reach out not only across electricity transmission lines but also across financial markets and other forms of energy use such as transport. It is an energy market transition on many fronts that is unavoidable and presents both opportunities and challenges, particularly in the form of meeting the energy trilemma of building an affordable, reliable, and secure energy system while meeting movement towards cleaner generation sources.

The energy market transition presents risk in wholesale market management with non-dispatchable renewable generation becoming the norm. Extreme warm weather events caused by El Nino and climate change could also exacerbate challenges and climate change mitigation is again looming as a potential driver for economic transformation in Australia.

In operating as a nationally authorised retailer, Aurora Energy must remain mindful of the ongoing Australian energy market transition and how it will shape outcomes across multiple fronts including generation costs, network transmission, electric vehicle infrastructure and climate change mitigation actions. Retailers will be required to undertake material steps to address these areas with a growing need to develop operational resources such as technology systems, use of data and, of course, its most important asset, its staff.

2.2 TASMANIA

Tasmania is a unique jurisdiction in the NEM. Its use of energy is dominated by hydro-electricity sources with very minimal penetration of natural gas. That electricity source is predominantly generated by one company, Hydro Tasmania, and distributed by one network company, TasNetworks. Aurora Energy is also the retailer to most Tasmanian consumers. The Tasmanian jurisdiction is additionally distinct in the NEM with all three of these major energy businesses that complete the electricity supply chain being owned by the Tasmanian Government. Only Western Australia and the Northern Territory mirror this circumstance with both jurisdictions existing outside of the NEM.

The distinct Tasmanian energy framework ensures a high degree of consistency of price outcomes across the Tasmanian region but commensurately a lack of market liquidity, particularly in the generation sector. Hydro-electricity is highly reliable and by comparison to mainland jurisdictions, there is no capacity issues in the Hydro Tasmania co-optimised fleet of generators and water reservoirs. This is especially the case since the findings of the 2017 Tasmanian Energy Security Taskforce that imposed a rigorous management framework over Hydro Tasmania water storages to ensure ongoing energy security.¹

Notably, recent cost of living challenges have begun to affect a range of Tasmanians, including those who have not previously been exposed to tighter economic conditions. Australians are living through an extended period of high inflation, driven primarily by factors outside of its control such as the war in Ukraine. This conflict has created havoc across global supply chains, including energy markets with constraints on wholesale markets being the driver of higher energy prices since early 2022. Consequently, affordability issues continue to remain a critical issue for many Tasmanians.

However, right now, Tasmanian regulated electricity prices are amongst the lowest in the nation² and this is discussed further in Section 4.1. Despite historic low regulated prices, environmental and structural challenges placed on consumers within the Tasmanian electricity market persist. These are distinct challenges compared to those on mainland Australia, in particular cold winters, and a lack of inter-model fuel competition due to the low availability of reticulated natural gas. Whilst some customers supplement their energy use with solar, wood and/or LPG sources, it is the case that most Tasmanians are dependent on electricity for their heating and hot water services.

These challenges are compounded by factors such as Tasmanian household stock being generally of a low standard when it comes to energy efficiency. Given a large proportion of concession customers exist in Tasmania, there is a high degree of customers that require support when managing the payment of their electricity bills. Governments, regulators, and

¹https://www.stategrowth.tas.gov.au/energy_and_resources/tasmanian_energy_security_taskforce/final_report

² Comparison of Electricity and Gas Prices Available to Small Customers in Australia, Tasmanian Economic Regulator October 2022, p.1

retailers alike have taken action to implement short, medium and long-term solutions to assist customers in managing high bills and this is discussed further in Section 5.

2.3 AURORA ENERGY

Aurora Energy plays a vital role in supporting customers as the sole Tasmanian based, incumbent electricity retailer and it continues to be the retailer used by the vast majority of Tasmanian electricity customers. Further, nearly the entirety of Tasmanian residential and small business customers are on a regulated electricity retail price or a price that is derived from the regulated retail price.

Aurora Energy is also unique in a national context in two perspective roles that it has in Tasmania, both of which apply additional responsibilities on the organisation. These roles are Regulated Offer Retailer and Retailer of Last Resort (RoLR).

The Regulated Offer Retailer responsibility requires Aurora Energy to support all Tasmanian residential and small business customers through an obligation to offer a Standard Retail Contract that reflects prices determined by the Regulator. This basic consumer protection ensures that all small customers who consume less than 150 MWhs per annum can receive electricity on a set of consistent and transparent terms and conditions.

Within a NEM jurisdiction like Tasmania, Regulated Offer Retailers can have responsibilities to their customers and the broader market that are additional to those that 'second tier' retailers may incur. This includes ensuring an offer to supply and supporting all customers with consumer protections such as hardship programs. Further, as the default RoLR, in the event of a retailer failure, Aurora Energy is required to adopt the customers of the failed retailer and continue to ensure supply, based on a Standard Retail Contract and standing offer prices.

Aurora Energy, as the Regulated Offer Retailer for Tasmania, faces an arguably higher level of risk and obligation than competing retailers in supporting all Tasmanians and acting as the default retailer of last resort. It is also noted that Aurora Energy is the only authorised retailer operating in Tasmania that is subject to retail price regulation.

It is important to note that most regulations that shape how Aurora Energy operates are set at the national level, such as under the National Energy Retail Law, and the National Electricity Law. The small amount of Tasmanian regulation that covers Aurora Energy operations is drawn from Tasmanian laws and rules, most notably, power price regulation.

By operating in a national market, Aurora Energy is subject to national reform projects and programs that can vary in size, impact, and regularity. Since 2016, there has been a material upswing in national market reforms with over 15 different rule changes that have directly impacted Aurora Energy's operations with a number of these driving material and large-scale operational change.

Consequently, Aurora Energy now bears an expanded and more onerous set of regulatory obligations that reflect a trend of increasing risk being borne by retailers across the NEM. Critically, these market and regulatory driven changes are outside of Aurora Energy's control.

Aurora Energy is limited in its capacity to manage these market challenges. By comparison to large mainland energy retailers with extended customer bases across which costs can be spread, there is a much lower level of capacity within Aurora Energy to be able to invest in information technology and business infrastructure as well as its core customer support services.

The overall operating environment also continues to change at pace as part of Australia's transition to a net-zero economy underpinned by the NEM. As such, regulatory, policy and market developments have the potential to impact the capacity for Aurora Energy to not only achieve its strategic outcomes but also remain a sustainable, ongoing business.

3 POWER PRICE REGULATION IN TASMANIA

Key observations:

- Regulated retail prices are composed of a range of cost components covering wholesale, network, metering, renewable, market and retail costs.
- Aurora Energy's retail cost component represents only 11 per cent of the total retail price stack.
- It is Aurora Energy's preference to provide the best level of service possible and be ready to meet the needs of the evolving Australian energy market.

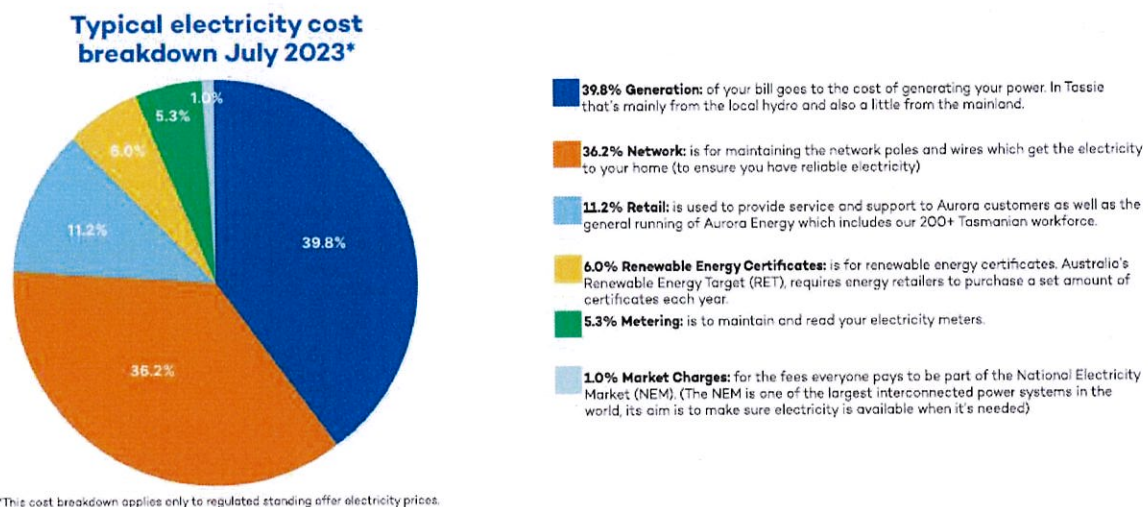
3.1 BASIC FRAMEWORK

The electricity pricing framework in Tasmania is comprised of laws, regulations and guidelines that are established by the Tasmanian Government and overseen by the Regulator. It applies solely to what are determined to be 'standing offer' customers who are sold electricity under a Standard Retail Contract. These are 'regulated' customers and include all residential customers and small business customers who consume less than 150MWhs per annum.

The prices that are applied to regulated customers are determined through a 'building block' approach. Under a building block approach, the components that make up the total cost of supplying electricity to customers are added together to arrive at a maximum revenue figure, the Notional Maximum Revenue (NMR). This NMR includes costs the Regulator determines to be standard retail costs required to service the regulated customers contracted to the Regulated Offer Retailer (Aurora Energy).

Figure 1 below demonstrates each of the components that come together to form a retailer standing offer price.

Figure 1 – Electricity Cost Breakdown for regulated customers



For the above cost components, there are different sources of control, regulation and market management that determine their value. Notably, the Regulator only has direct control over a limited number of components in the overall price stack with the 11 per cent that relates to Aurora Energy being the primary one. This 11 per cent is underpinned by a multi-year determination of the appropriate settings for Aurora Energy's 'Cost to Serve' (CTS) and 'Retail Margin' handed down by the Regulator. Determination periods typically cover three years with the last determination being the 2022 Retail Price Determination (2022 Determination).

The setting of wholesale prices is the only additional area that the Regulator has a degree of oversight although this is a highly prescribed process under both the *Electricity Supply Industry Act 1995 (ESI Act)* and the Regulator's own guidelines and instruments. The remaining elements of the price stack are, for the main part, 'pass through' costs with varying levels of prescription applied to their representation in the NMR calculation. Figure 2 demonstrates the source of control and oversight of each of the retail price components.

Figure 2 – Cost component origin and oversight

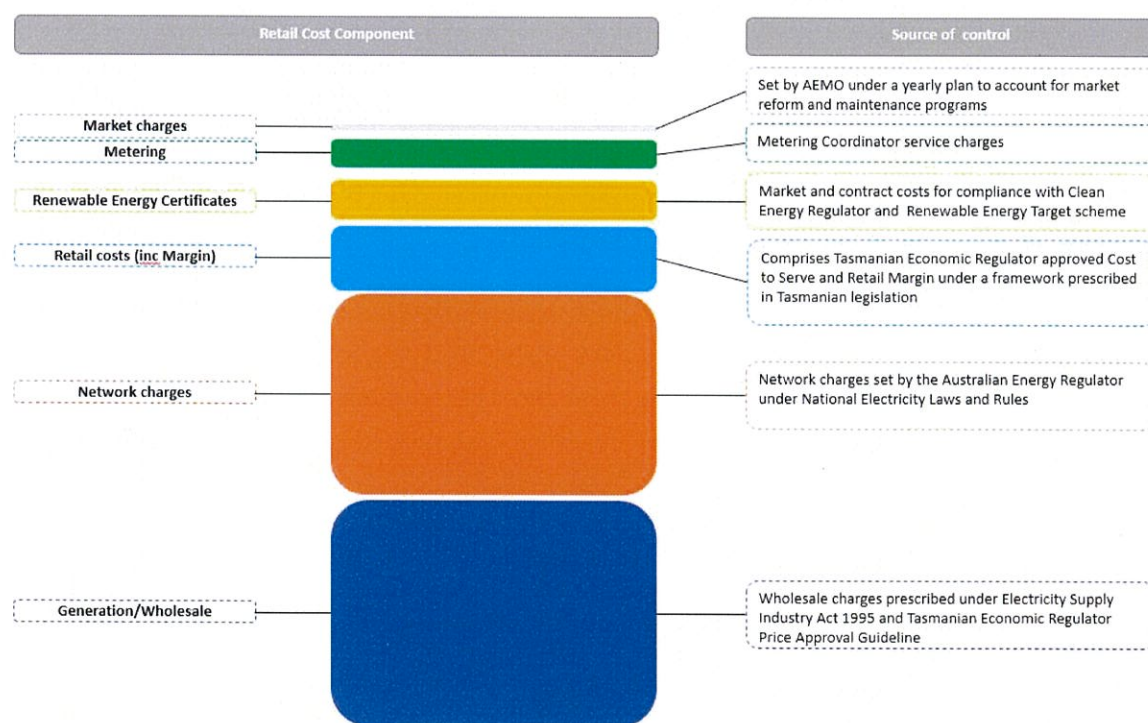


Figure 2 indicates there are multiple inputs that comprise retail prices with the large components typically being the determinants of whether prices increase or decrease. In recent years, the wholesale cost component has increased markedly and has produced material price rises, and has also repositioned as the largest of the cost components. However, this is a recent outcome whereas previously, and for many years, network charges were the largest price component.

3.2 ASSESSMENT OF AURORA ENERGY COSTS

Aurora Energy is acutely aware of the impact it can have in customer homes and businesses, whether through its retail prices or the services it delivers to assist customers in managing their use of electricity. Aurora Energy seeks to bring value to Tasmanian energy customers through providing a core service level focussed on least cost outcomes whilst enhancing their experience through both digital and traditional channels.

Importantly, whilst Aurora Energy may only represent 11 per cent of a retail bill, it has the ability to help customers make changes to their consumption behaviours and support better financial outcomes for households and small businesses. This may be through budgeting, tailored payment arrangements, options on how to pay, financial support when times are tough and education on ways to improve energy efficiency. Ensuring Aurora Energy remains financially sustainable and empowered to provide this assistance will be essential to addressing customer affordability over the coming years.

Further, as the NEM develops and customer expectations evolve, Aurora Energy requires ongoing support from governments and regulators so it can continue to invest in its systems and provide value to the Tasmanian people. Energy retailers are being required to transform their businesses to meet regulatory obligations, remain competitive, and achieve cost efficiencies from digitalisation. Customer engagement is also increasing, and Aurora Energy has seen a marked uplift in the demand for digital services over the past four years with the expectation of a modern and tailored service response.

It is in this environment that Aurora Energy must strike a balance between meeting the service requirements of customers and regulators alike whilst providing a low power price outcome that its customers equally expect. Over the three most recent annual price reset periods, the percentage of Aurora Energy costs in the overall price stack have decreased, see Table 1 below.

Table 1 – Retail percentage of price stack 2021-2023

2021-22	2022-23	2023-24
13%	12%	11%

Whilst this reflects a change in other components in the retail price stack, it is primarily accounted for through the 2022 Determination that when approved by the Regulator resulted in reductions to Aurora Energy's CTS and Retail Margin. Aurora Energy recognises that whilst the lower cost outcomes from the 2022 Determination have assisted in keeping prices low, it has also impacted Aurora Energy's ability to provide the services required to help customers manage and control their electricity bills.

An outcome of the 2022 Determination was a reduction in Aurora Energy's Retail Margin on a percentage basis and the new application as a dollar per customer approach. This reflects a nationwide trend of margins becoming further constrained for electricity retailers.³

It is important context to note that with Aurora Energy representing 11 per cent of the retail customer bill, a material decrease or increase in Aurora Energy costs will trigger a very minor alteration in prices. For example, a 5 per cent decrease or increase to the Aurora Energy component will only change retail prices by 0.6 per cent. Whilst this is a minor impact on retail bills, the loss or gain of 5 per cent of regulated costs would significantly hamper the ability of Aurora Energy to service customers and enhance the systems and processes to meet growing customer needs.

Further, as part of the 2022 Determination, the Regulator applied an efficiency factor to Aurora Energy for all three periods of the 2022 Determination. This is set at 3.4 per cent for Periods 2 and 3 and a lower rate for Period 1 noting already committed efficiencies from Aurora Energy to reduce costs.

When this efficiency requirement is added to a tightened approach to the setting of Aurora Energy's retail margin, it has resulted in a constrained capacity for the retailer to respond to customer needs and changing market paradigms. As part of the next price determination process, it is Aurora Energy's intent to review its CTS and Retail Margin allocations in consultation with the Regulator.

3.3 ASSESSMENT OF CURRENT FRAMEWORK

As the provider of bills to customers, Aurora Energy essentially functions as the revenue collector for all other elements in the supply chain. Hence, it is essential in the preparation of retail electricity prices that all retailers who participate in the market are able to recover the costs that are levied on them from the range of market participants and market operators.

With only 11 per cent of the price stack, there is no flexibility for Aurora Energy to under-recover cost components, particularly the larger components of distribution and generation that drive the majority of customer costs. Importantly, the current pricing framework allows for recovery of all costs that are subsequently levied onto Aurora Energy. In this context, the Tasmanian regulatory pricing framework, can be considered to operate as designed. However, as markets and customer needs evolve there is potential merit in considering the ongoing effectiveness of the current regulatory arrangements.

Aurora Energy observes that this effectiveness also relates to the operation of the current wholesale market regulatory arrangements that are delivered by the Regulator in compliance with Division 4A of the ESI Act.

³ Inquiry into the National Electricity Market, Australian Competition and Consumer Commission, November 2021, p.5

As for the Regulator's powers and functions, there is no evidence or information to suggest that these are not delivered in full by the Regulator and their officers in anything other than full compliance with the overarching heads of power in the ESI Act and the *Economic Regulator Act 2009*.

4 RETAIL PRICE OUTCOMES IN TASMANIA

Key observations:

- Tasmanians have amongst the lowest regulated electricity prices in Australia.
- The cold winter climate and electrification of most Tasmanian heating sources ensures customer energy use is comparatively high.
- The greatest benefit in managing power price outcomes will come from measures such as tariff reform, energy literacy and energy efficiency.

4.1 COMPARATIVELY LOW UNIT PRICES

Based on the findings from the Regulator, who conducts an annual review of Tasmanian electricity prices against mainland prices, Tasmanians have either the lowest or amongst the lowest energy prices in Australia. In particular, time-of-use tariffs are lower than the bills under all residential and business time-of-use tariffs, including market contracts in most mainland jurisdictions.⁴

These tariff outcomes have been achieved over the last 10 annual price reset events that occur each 1 July. Tables 2 and 3 below demonstrates in the early part of the previous decade, there were a range of price decreases and minor increases. It is only in the last two annual price reset periods that there have been significant increases. In real terms both residential and small business tariffs have decreased by 13.8 per cent for residential prices and 23.5 per cent for small businesses over 2014 to 2023 period.

Table 2 – Residential Tariff Movement 2014-2023

	% Price Mvmt	Jun to Jun CPI	Real Net Change	Bill Mvmt% from 1 July 2014 (Real)
Jul-14	-7.8%	2.8%	-10.6%	-10.6%
Jul-15	2.0%	0.6%	1.4%	-9.4%
Jul-16	3.4%	1.2%	2.2%	-7.4%
Jul-17	2.0%	2.3%	-0.3%	-7.7%
Jul-18	2.1%	2.4%	-0.4%	-8.0%
Jul-19	2.0%	2.3%	-0.3%	-8.2%
Jul-20	-1.4%	1.3%	-2.7%	-10.7%
Jul-21	-7.1%	3.6%	-10.7%	-20.3%
Jul-22	11.9%	6.5%	5.4%	-16.0%
Jul-23	9.5%	6.9%*	2.6%	-13.8%

**Mar-Mar CPI used for July 2023 as June CPI not available at time of price reset*

⁴ Comparison of Electricity and Gas Prices Available to Small Customers in Australia, Tasmanian Economic Regulator, October 2022, p.I

Table 3 – Small Business Tariff Movement 2014-2023

	% Price Mvmt	Jun to Jun CPI	Real Net Change	Bill Mvmt% from 1 July 2014 Real
Jul-14	-7.8%	2.8%	-10.6%	-10.6%
Jul-15	2.0%	0.6%	1.4%	-9.4%
Jul-16	3.4%	1.2%	2.2%	-7.4%
Jul-17	-5.2%	2.3%	-7.5%	-14.3%
Jul-18	2.1%	2.4%	-0.4%	-14.6%
Jul-19	2.0%	2.3%	-0.3%	-14.9%
Jul-20	-1.4%	1.3%	-2.7%	-17.2%
Jul-21	-11.0%	3.6%	-14.6%	-29.3%
Jul-22	11.9%	6.5%	5.4%	-25.4%
Jul-23	9.5%	6.9%*	2.6%	-23.5%

**Mar-Mar CPI used for July 2023 as June CPI not available at time of price reset*

Despite these real reductions, power prices remain an ongoing challenge for a number of Tasmanian customers. Especially as Tasmania's cold winters and dependency on electricity for heating and hot water services creates high bills and affordability issues. It is noted that in jurisdictions such as Victoria and New South Wales with high natural gas usage, electricity bills are far smaller given the use of natural gas as a highly common source of household heating and cooking.

Hence, it is important the Inquiry makes the distinction between unit prices and total energy bill costs when formulating its findings and actions to address power price impacts in Tasmania. Challenges associated with high consumption environments must also consider solutions that focus on the demand side that help to manage, shift and reduce energy usage such as with energy efficiency measures.

4.2 TARIFF CHOICE AND REFORM

Tariffs play a major role in the way a consumer interacts with their energy supply as they represent the way in which energy prices are applied to a customer premise. Typically tariffs involve a daily supply charge and a charge for the energy consumed. It is in the energy charge that signals can be provided to the customer to drive energy use at different time periods and/or in different volumes.

The choice by a customer of a particular tariff has the potential to dramatically affect their bill outcomes. For example, time-of-use tariffs encourage customers to use energy in non-peak or shoulder periods. If a customer is able to shift some of their usage outside of the peak period, they will be able to reduce their bill in comparison to their energy use on a bill that sets a flat rate for use at any time of day.⁵

⁵ ACCC Inquiry into the National Electricity Market, June 2023 Report, page 4

A large driver for tariffs that incentivise customers to move their usage of energy to alternative time periods comes from electricity distribution businesses who can, potentially, reduce network spend on infrastructure if demand usage is limited in peak periods. This can in turn reduce customer costs. Additionally, distribution businesses seek to adjust their daily and energy usage charges at different rates as part of a pricing strategy to provide “cost reflective network tariffs to reflect the true cost of supplying to customers.”⁶

The outcome of these progressive movements in daily and energy charges across Tasmanian network tariffs over many years is different to retail tariffs which have, for most periods, increased at a uniform rate. This has created a lack of cost-reflective regulated retail tariffs and served to have the largest impact on Aurora Energy as the end point of the Tasmanian energy supply chain.

A lack of cost reflectivity in its regulated tariffs is a long-standing challenge for Aurora Energy and one it has in part addressed, where possible, in previous price periods. Tariff imbalances are created when underlying costs move disproportionately to retail tariff rates. This creates significant forecasting risk for Aurora Energy and limits the ability to reflect network price signals that can in turn reduce customer costs.

Steps have been taken to address the lack of cost-reflective tariffs with minor rebalancing steps occurring in 2017, 2020 and 2023. Aurora Energy will continue to engage with the Regulator on ensuring it can adjust its tariff suite to be more cost reflective and enable the pass through of signals to customers that can ultimately benefit them.

4.3 ENERGY LITERACY AND ENERGY EFFICIENCY

With Tasmania’s high energy consumption environment, the reduction or deferral of energy usage has the potential to greatly mitigate the impacts of power prices. Aurora Energy is aware that around half of Tasmanians were assessed as having adequate prose (51.0 per cent) and document literacy skills (49.3 per cent), compared with 53.6 per cent and 53.2 per cent respectively for Australia.⁷ This leaves a gap for action that when filled can produce significant results when dedicated programs are undertaken.

To this end, Aurora Energy undertook tours across Tasmania in 2022 providing roadshows aimed at both community organisations and customers to promote its vulnerable customer programs with the goal of increasing their energy understanding.

Aurora Energy also continues to update all customer messaging to ensure all its communications are up to date, clear, and simple. Notably, Aurora Energy collaborated with Amigos Interpreters and Translators to design flyers in languages other than English, outlining

⁶<https://www.tasnetworks.com.au/poles-and-wires/pricing/our-pricing-strategy#:~:text=Cost%20reflective%20network%20tariffs%20reflect,account%20when%20customers%20use%20electricity>, TasNetworks

⁷ 1307.6 - Tasmanian State and Regional Indicators, Australian Bureau of Statistics, Jun 2008

the help available for customers who may be struggling as well as highlight energy saving advice. This is a step towards Aurora Energy becoming a more inclusive business.

The use of a broad spectrum of solutions to address energy affordability, including low unit prices and a focus on energy efficiency measures, is supported by key consumer stakeholders such as Tasmanian Council of Social Service (TasCOSS).⁸

As part of its Community Program, Aurora Energy is examining the potential to engage customers in programs that bring benefit not only to their personal use of energy but also to the broader environment, such as through energy literacy and energy efficiency initiatives. It is Aurora Energy's intent to share more information on these programs in the first half of 2024.

⁸ TasCOSS Media Release – Winter Chill Prompts-calls-to-improve-household-energy-efficiency-and-lower-power-bills, 10 June 2021

5 SUPPORT FOR CUSTOMERS

Key observations:

- Whilst energy prices can be impactful for Tasmanian customers, there are a range of support measures to alleviate bill payment difficulty, provided by Aurora Energy, community organisations and the Tasmanian Government.
- Contributions from all elements of the supply chain, not just Aurora Energy, could see a marked growth in the overall level of financial support for customers facing bill payment difficulties.
- Targeted assistance measures have been effective for vulnerable customers in offsetting the recent price increase and are expected to do so again the next pricing period.
- Customer needs are evolving with tools and services such as advanced meters and aurora+ assisting customers to better understand and manage how they pay for electricity.

5.1 YOUR ENERGY SUPPORT PROGRAM

Aurora Energy has a proud and long-standing commitment to its “Your Energy Support” (YES) program, aimed at assisting Tasmanians in financial difficulties to manage their energy bills. The core purpose of the YES program is to help customers facing both short-term and chronic bill payment difficulties to stay connected and reduce debt.

Servicing the YES program requires a number of resources. Due to the high volume of cases to be managed, a dedicated specialist team delivers the YES program. Additionally, the program offers a number of non-traditional consumer protection services such as incentivised payment plans, energy audits and the gifting of low consumption heating appliances.

Your Energy Support Program or ‘YES’ Program support for Tasmanians at 30 June 2023

- Currently 4,707 customers are supported by the YES program (up from 4,480 in the previous period).
- 68 per cent of these customers receive a concession discount (down 4 per cent since last reported)
- From July 2022 to June 2023, there were a total of 6,837 payments to the value of \$902,448

5.2 AURORA SUPPORT MEASURES

Aurora Energy invests in the Tasmanian community and funds initiatives that assist in practical and meaningful ways. During 2022-2023, this equated to \$2.1M in support of the Tasmanian community. This included a top-up contribution to the State Government's energy hardship fund administered by the Salvation Army and funding of customer support arrangements through the YES program.

During the year, Aurora Energy also partnered with TasCOSS, Hydro Tasmania and TasNetworks to fund Community Voices, a lived experience program which trains, mentors, supports and pays for people living on low income to help provide advice on programs, policies and initiatives that affect them.

Alongside the existing funding support from the Tasmanian Government, Aurora Energy invested \$250,000 to the Tasmanian No Interest Loan Scheme (NILS) Energy Saver Loan and Subsidy program to help people on low incomes get access to essential energy efficient appliances.

Along with these initiatives and programs, Aurora Energy also provided a direct contribution to Tassie Mums, Hobart City Mission, Autism Tasmania, Tasmanian Mens Shed, Ronald McDonald House, Dress for Success, Volunteering Tasmania, and Neighbourhood Houses Tasmania.

The full range of measures and tools to help mitigate the impacts from rising power prices include:

- Extended payment options and relief via Aurora Energy's nation leading YES (financial hardship) program.
- A Customer Support Fund to support anyone experiencing financial vulnerability, used to waive fees and charges, freeze debt, and help customers manage their ongoing consumption through subsidised payment plans.
- Over \$400,000 in partnerships and donations to support worthwhile projects and causes, including \$50,000 to the Ronald McDonald House to give Tasmanian families a place to call home while their child receives care in hospital.
- Providing a further \$200,000 to top up the Tasmanian Government's energy hardship fund.
- Energy efficiency tips across digital platforms and through Aurora Energy's community networks as low energy efficiency in Tasmanian homes remains a big driver of high bills, especially in winter.
- Flyers outlining the help available as well as energy saving advice in five languages other than English.
- Investment of, on average, \$1.5M each year in a range of community support measures for the last three years.

By comparison to other participants in the Tasmanian energy sector, most of the financial support for customers is provided by Aurora Energy, despite only 11 per cent of the price stack being associated with retail costs. Over the past 10 years, 60-76 per cent of the retail bill has been and will continue to be comprised of wholesale and network costs. Aurora Energy acknowledges the excellent work from both Hydro Tasmania and TasNetworks in supporting the community through measures such as grant programs and energy advice. However, financial support for vulnerable customers, who are the most impacted by power prices, could be greatly enhanced beyond the contributions made by Aurora Energy and the State Government.

5.3 TARGETTED ASSISTANCE

As part of new prices to apply from 1 July 2023, the Tasmanian Government announced a \$55 increase to electricity concessions, a \$250 bill rebate per annum for two years to eligible households and a \$650 bill rebate to eligible small businesses for 2023-24 (to be provided from 1 July 2023) as part of the Energy Price Relief Payments (EPRPs).

Supporting these financial assistance measures is the aforementioned range of support provided by Aurora Energy and the Government's \$50M Energy Saver Loan scheme available for households and small businesses.

Aurora Energy consider these measures as 'targeted assistance' that is provided to a distinct customer segment or group aimed at the improving the circumstances of those customers. It is Aurora Energy's view that targeted assistance measures have proven effective in addressing customer impacts due to power prices.

These measures have also been broadly accepted by vulnerable Tasmanians, for whom the assistance is primarily intended, with several positive feedback points received from customers in response to the EPRPs such as:

"Thank you so much for helping us with discounts on our bills from Aurora energy. We're so grateful... As being on a pension can be hard for us."

"This is wonderful news. Thank you very much, from two aged pensioners."

"Thank you for your email with its tone of caring and good advice. Of course all the hype about electricity charges has scared me but I have learned to trust Aurora and believe I will be looked after. My unit is, I think, as economical as it can be and I certainly will be more careful about using non peak options."

"Thank you again...I am dreading the problem of coping with increased costs and coping on a pension and will look forward to any advice and help you offer. At 83 after a life of relative comfort in spite of low vision and old age problems like pain, it is difficult to adapt to the current conditions but I believe with the warm caring as offered by Aurora, I will survive and optimistic that I will cope."

Aurora Energy considers direct customer feedback important to evaluating the ongoing cost of living impacts and encourages the Inquiry to further consider sourcing lived experience feedback to inform its deliberations.

5.4 ALTERNATIVE MEASURES

Regarding alternative measures, Aurora Energy notes that governments broadly have limited budget resources to support customers experiencing cost of living difficulties. Whilst it would be an advantageous outcome to have multiple, multi-million-dollar support mechanisms actively assisting customers, this is an unrealistic expectation. As such, governments have typically focussed their assistance for cost of living support into one or two key measures and a number of smaller programs to address associated issues.

Aurora Energy notes the use of price capping as a measure to address power price pressure as the most discussed alternative measure to the current policy of targeted assistance. The distinct difference between these two methods concerns the coverage of the customer base. Price capping will benefit the entirety of the customer base, whereas targeted assistance measures benefit the most vulnerable and in need of support. In a scenario where the same level of funds is applied through either mechanism, targeted assistance measures will provide a higher level of support to vulnerable customers than provided under a price cap where the committed funds are applied to all customers.

In comparison to previous periods where price capping was utilised in Tasmania, the most recent price periods have been underpinned by extremely high inflationary environment, rising interest rates and a sharply increasing wholesale price. This has served to apply significant pressure to vulnerable customers who arguably have a greater need for assistance. Whilst Aurora Energy acknowledges power prices are a concern for all customers, there are Tasmanian groups that are less equipped than others to cope with the ongoing pressures.

5.5 ADVANCED METERS

Advanced meters are electronic meters capable of two-way communication via a mobile communications network. They have functions that greatly benefit customers, such as remote meter reading and the collection of interval meter data.

As part of its policy to deliver affordable, reliable clean energy, the Tasmanian Government committed to accelerating the rollout of advanced meters by the end of 2026, in line with national electricity laws. This policy initiative is intended to empower energy consumers with greater information and choice in how to manage their energy costs.

Aurora Energy has now installed over 175,000 advanced meters to take the total installed at over 63 per cent of all households and businesses. Most Tasmanian households and business now have an advanced meter installed with the majority of the rollout due to be completed by the end of 2024.

Functions such as remote reading improve the customer experience of using energy and lower the cost of meter reading services. With no more physical reading required, a site visit is no longer necessary. Further, the multitude of access issues that customer sites can present are no longer a factor.

Data and the use of interval meter data is also another key benefit, particularly when combined with remote communications functionality. Interval meter data enables the use of timely data to provide products that can measure and communicate customer use, such as aurora+.

5.6 AURORA+

Over recent years it has become clear that Tasmanians need and want more from their electricity retailer. They seek to interact quickly and easily through digital channels and be given the advice and assistance to better understand and manage how they pay for electricity. Aurora Energy has sought to address this need through its digital energy management platform, aurora+.

Since its establishment in 2019, aurora+ has provided significant benefits to over 75,000 customers by providing them with greater visibility and control over electricity usage. Customer research and investigation has shown that aurora+ is a product that can enhance and improve the user experience for all Tasmanian electricity customers. Aurora Energy customer experience and brand tracking research has identified a number of benefits associated with aurora+. Customers have consistently stated aurora+ is the number one reason for not experiencing bill shock.

Aurora Energy has undertaken significant steps to ensure the benefits from aurora+ can be accessed by as many Tasmanian customers as possible, not the least being the high penetration of advanced meters referred to above in Section 5.5. Aurora Energy has also proactively engaged with customers on the benefits of aurora+ as well as how best to use the product through a state-wide roadshow. Community education sessions were held in all areas of the state, including Bridgewater, Burnie, Smithton and Sorell, during September and October 2022.

Given its broad uptake and high value proposition for Tasmanian customers, Aurora Energy welcomed the Regulator's decision in the 2022 Determination to classify aurora+ as a standard regulated cost. This allowed Aurora Energy to remove the aurora+ daily product service fee. As a result, Aurora Energy no longer charges an aurora+ fee and this will remain the case.

Aurora Energy is continually developing aurora+ in line with changing technologies and customer expectations. Since 1 July 2022, Aurora Energy has made improvements to aurora+ to expand its availability including adding the general business Tariff 22 and solar functionality for Tariff 94 customers. Aurora Energy is also evolving aurora+ to ensure greater customer

usability and this progression of development reflects the ongoing digital transformation of products and services across utilities that has become a standard customer expectation.

6 OTHER CONSIDERATIONS

6.1 GAS

As of 30 June 2023, Aurora Energy's gas portfolio comprised 4,564 residential sites including 99 small business sites and 41 large business sites. Hence, the Aurora Energy gas portfolio is by comparison to its 270,000 electricity customers a far smaller customer segment.

The regulation of natural gas in Tasmania is again, by comparison to electricity, far lighter with much less breadth and prescription. For clarity, there is no regulation of retail natural gas prices in Tasmania. Under the Tasmanian regulatory framework, gas is considered a 'fuel of choice' and hence there is no obligation on Aurora Energy or its competitors to offer terms of supply.

Important context to this structure is that gas retail regulation is completely set at the Tasmanian level with the National Energy Retail Law (NERL) not applying to retailers of natural gas in Tasmania. Since the commencement of the NERL in Tasmania in 2012 to the electricity segment, Aurora Energy has treated its gas customers with a commensurate regard to that of its electricity customers. This is best evidenced in the delivery of the Aurora Energy YES program which since 2012 has been available to gas customers, despite regulation to this effect only coming into force from 1 July this year under the Tasmanian Economic Regulator.

Support from Aurora Energy for natural gas customers is important as in recent years gas commodity prices have seen a marked increased globally and throughout Australia because of the conflict in Ukraine. This instability has dramatically impacted global gas supply since early 2022 with it being particularly volatile between July 2022 to June 2023. There is no upstream gas supply industry in Tasmania. Retailers in Tasmania are therefore subject to gas market price outcomes in the Victorian market as this is the supply point of gas into Tasmania via the Tas Gas Pipeline. As a consequence, markets risks evident in Victoria, or its interconnected gas regions, are reflected in gas commodity prices (be them spot or contract prices) paid by Tasmanian retailers. This market structure exposes Aurora, and other shippers of natural gas into Tasmania, to gas price volatility in wholesale markets.

As indicated above, transportation of natural gas from Victoria to Tasmanian is via a single source provider in the Tasmanian Gas Pipeline. Once in Tasmania, natural gas is distributed through the Tas Gas Network into customer homes and businesses. Again, there is limited capacity for Aurora Energy to influence the costs of these gas transportation and distribution services.

The Tasmanian Government has acted to help improve the supply of gas to Tasmanian consumers at lowest cost, by influencing the national gas reform program. A key part of this has been the introduction of the gas pipeline information disclosure and arbitration framework. As a direct result of this framework, gas transportation pricing outcomes for Tasmanian consumers have improved in recent years.

Despite this improvement, gas prices remain relatively high in Tasmania compared to other jurisdictions. However, the penetration of gas in Tasmanian is significantly lower than mainland jurisdictions which limits the impact on prices impacts on Tasmanian customers. In levying gas prices, Aurora Energy endeavours to strike a balance between recovery of costs, commercial returns and competitive pricing.

Aurora Energy recognises the Tasmanian Government has begun a conversation over the potential decarbonisation of natural gas in Tasmania⁹ as part of the broader transition of the Australian energy market. Aurora Energy will continue to monitor and engage with the State Government and broader market over the future of gas and any potential alternatives to its provision over the coming years.

⁹ Tasmanian Future Gas Strategy – Discussion Paper, Tasmanian Government, November 2021

GLOSSARY

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
CTS	Cost To Serve
ESI Act	<i>Electricity Supply Industry Act 1995</i>
NEM	National Electricity Market
NMR	Notional Maximum Revenue
Regulator	Tasmanian Economic Regulator
RET	Renewable Energy Target
ROR	Regulated Offer Retailer
ROLR	Retailer of Last Resort

