



2 February 2024

Secretary
Joint Select Committee on Energy Matters in Tasmania
Parliament House
HOBART TAS 7000

Dear Secretary

Submission to Joint Select Committee into Energy Matters in Tasmania

Aurora Energy welcomes the opportunity to provide input to the Joint Select Committee into Energy Matters in Tasmania (the Joint Select Committee).

The provision of energy in its different types and forms is a critical input for the Tasmanian economy and broader community. Importantly, electricity is an essential service for Tasmania's residential and small business customers who depend on it to be safe, reliable and affordable. As such, the operation and structures that underpin the Tasmanian energy sector have a material capacity to influence the lives and businesses of everyday users.

The role Aurora Energy plays in supporting the Tasmanian community is one it takes seriously. Aurora Energy is fully owned by the people of Tasmania, based in Tasmania and employs Tasmanians. In the last financial year, Aurora Energy contributed close to \$1.9M in customer and community support with all of its financial returns remaining within the state. Aurora Energy also contribute to State Government consolidated revenue through provision of annual dividend payments with these set at 90 per cent of net profit after tax.

Aurora Energy recognises there is currently an increased focus on energy matters in Tasmania given a range of major projects either in train or on the cusp of approval. In addition, cost-of-living pressures, and the essential service nature of electricity, ensures it remains at the forefront of many Tasmanians. Aurora Energy fully supports the establishment of the Joint Select Committee and its submission to the Joint Select Committee is in Attachment A to this letter.

Aurora Energy has also provided an extensive submission to the Legislative Council Inquiry into Energy Prices in Tasmania (Energy Prices Inquiry) that includes detail on the application of retail prices as well as matters related to their establishment and supporting services. Noting the criticality of retail prices to all Tasmanians, Aurora Energy requests that its submission to the Energy Prices Inquiry be accepted as a key element of its submission to the Joint Select Committee.

If you have any questions regarding the submission, please contact Giles Whitehouse, Corporate Affairs Manager, in the first instance: [REDACTED]

Yours sincerely

A black rectangular box redacting the signature of Nigel Clark.

Nigel Clark
Chief Executive Officer

Attachment A – Detailed Feedback from Aurora Energy

1. Aurora Energy's foundation role in Tasmanian energy sector

Aurora Energy is a Tasmanian Government, state-owned company (SOC) with a directive to operate solely in the Tasmanian region of the National Electricity Market (NEM). Currently, it retails electricity to over 270,000 customer connections and supplies natural gas to nearly 5,000 customers.

Currently, it is the retailer to the vast majority of Tasmanian energy consumers, although competition in the retail market has begun to grow in recent years.

Aurora Energy plays a vital role in supporting customers as the sole Tasmanian-based, incumbent retailer for electricity customers. This is predominantly through its roles as:

- The nominated regulated offer retailer in which Aurora Energy is the only authorised retailer operating in Tasmania subject to retail price regulation.
- The default retailer of last resort (RoLR) under which Aurora Energy is responsible for managing the customers affected by the failure of a second-tier retailer.

As such, Aurora Energy is the 'safety net' for all Tasmanian electricity consumers. Customers are guaranteed to be afforded an offer of supply from Aurora Energy on prices that are approved by the Tasmanian Economic Regulator.

This safety net was further demonstrated by a retailer failure event in 2022 for Elysian Energy that exited the NEM. This saw the 350 Tasmanian-based Elysian Energy customers taken on by Aurora Energy under national RoLR rules.

2. Key observations on current structure

2.1 State-owned retailer – key benefits

As an authorised retailer under the *National Energy Retail Law*, Aurora Energy operates under the same market conditions as other energy retailers. This being a dynamic retail energy environment that includes competition, evolving customer needs, increasing financial pressures, and ongoing industry disruption resulting from Australia's transformation of the economy to net zero.

However, a critical point of difference for Aurora Energy to other retailers is its SOC status, particularly whether the drivers and objectives of a state government are distinct to those of a privately owned energy business.

The Tasmanian Government as the shareholder of Aurora Energy is subject to the Tasmanian Parliament and consequently, the Tasmanian population. Aurora Energy's observation on this paradigm is that Tasmanian energy consumers, as the indirect owners of Aurora Energy, seek a wide range of outcomes from their energy businesses. This includes lowest possible prices alongside a high level of service and commitment to customers. These aspects are predominantly unaligned with the commercial focus typically associated with privately owned shareholders, although a desire for business sustainability and a retail business that is engaged with its customers are more universally sought after characteristics from all shareholders.

For Aurora Energy, this translates into a business model that is replicated in only a few instances, such as Government-owned retailers in the Australian Capital Territory, south-east Queensland and the non-NEM jurisdictions of Western Australia and the Northern Territory. For clarity, there are over eight nationally authorised retailers operating in Tasmania and Aurora Energy is the sole, government-owned, regulated offer retailer.

Government-owned businesses, by their nature, have a greater imperative to operate with a core focus on customer outcomes. Where this is realised most prominently is in support for customers experiencing difficulty in managing their bill, an area where Aurora Energy is positively recognised for its actions above and beyond the base laws and rules regarding consumer protection, with the following prominent actions noted:

- \$5M allocated to assist customers during the COVID-19 pandemic.
- Delivered the State Government assistance to waive all small business quarterly bills in April 2020 in response to the pandemic.
- High commitment to operating hardship policies and programs to support vulnerable customers in a range of measures.
- Extensive support for community agencies and support services with close to \$1.9M provided to various organisations and vulnerable customer direct across 2022-23.

These are just a few of the efforts undertaken by Aurora Energy in delivering its customer focused outcomes. Further, in many cases when a new idea is proposed to address customers and supporting services, such as the recent national agreement to provide additional support to financial counsellors¹, Aurora Energy has already been providing its voluntary, additional support to financial counsellors for many years.

2.2 State-owned retailer – key challenges

One of the aforementioned outcomes that Tasmanians seek from their state-owned retailer is additional support in managing bill payment difficulty and greater protection from the prospect of disconnection. Greater support is provided through its nation-leading Your Energy Support (YES) program and Aurora Energy truly treats disconnection of its customers as a last resort.

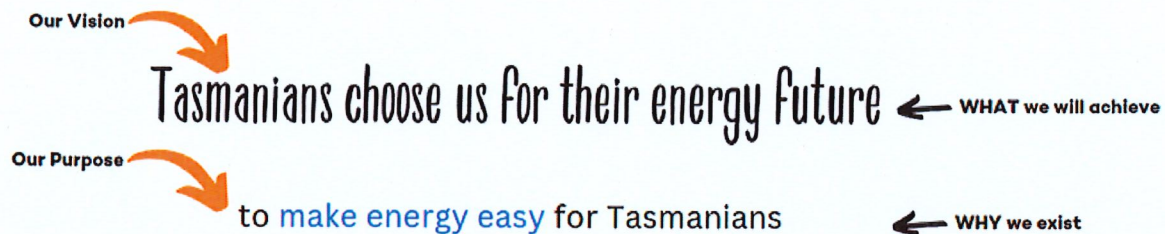
Aurora Energy realises it is in a customer's best interest to manage and understand their own debt build up. Methods that can assist customers with positive, growth mindset approaches are utilised by Aurora Energy to help customers lower their energy debt. Whether this be better budgeting tools in digital based products such as aurora+ or initiatives to help grow their energy literacy. When it comes to disconnections, in February 2023, Aurora Energy introduced a 'Knock to Stay Connected' program that has helped over 65 per cent of customers originally scheduled for disconnection to avoid this outcome.

However, there is a challenging balance in managing credit services against commercial drivers to limit bad debt levels. For example, during the COVID-19 pandemic, ahead of instruction from the Australian Energy Regulator (AER), Aurora Energy ceased conducting disconnections. This was seen as a necessary and vital step to support the community during unprecedented times. However, the pause of disconnections did trigger a steep rise in bad debt accrual. This post COVID-19 is seeing debt practices aiming to return to normal state operation.

This is emblematic of the contrasting pressure on Aurora Energy at both a customer and enterprise level. Growth in bad debt levels increases the need to manage it more closely and this is a key task for Aurora Energy to address in balancing its role both as SOC but also as a commercial entity. This in turn can lead to a greater impost on Aurora Energy's cost to serve and financial sustainability.

¹ <https://www.energycouncil.com.au/news/energy-companies-support-financial-counselling-services/>

The broader conclusion as to whether Aurora Energy's business operations as a result of its SOC status are beneficial, neutral or detrimental is largely dependent on the viewpoint or strategic imperative of the reviewer. Arguably, there is greater customer benefit in a retailer that is not purely focused on shareholder returns and this is most clearly stated in the Vision and Purpose of Aurora Energy:



Finally, in regard to the current structure of the Tasmania energy sector, it is important to note that any change to the existing arrangements would likely alter the above existing structural outcomes experienced by Aurora Energy. Accordingly, the operation of Aurora Energy should be factored into any major recommendation for change that eventuates from the Joint Select Committee.

3. Challenges faced by Aurora Energy

3.1 Constrained Retail Market Dynamic

Across Australia, energy retailers are facing a consistent trend of lower retail margins and constrained cost to serve values. This has been evidenced in reporting from the Australian Competition and Consumer Commission (ACCC)² and in the outcomes of regulated pricing frameworks on mainland markets such as through the AER in its Default Market Offer.³ The ACCC also note that retail margins in the NEM have now declined from making up 8.9% of an average retailer's residential cost stack in 2016–17 to 2.3% in 2022–23.⁴

As highlighted by the Australian Energy Council (AEC), retailers have been competing in a highly volatile and challenging environment. This was experienced by Aurora Energy during the first year of its current regulatory determination (2022 Determination) that was approved by the Tasmanian Economic Regulator in April 2022. At this time, wholesale prices had been relatively low during recent years and this was a factor in the Tasmanian Economic Regulator setting the retail margin for Aurora Energy at reduced dollar per margin value. Whilst this provided a benefit to customers with no increases to the retail cost component of electricity prices, it has reduced the capacity of Aurora Energy to invest in the systems required to keep pace with the fast-evolving NEM and its people (see section 3.3).

Looking forward, Aurora Energy is highly mindful of the impacts from electricity prices on everyday consumers and its role in delivering those prices. However, noting that the retail component amounts to only 11 per cent of a customer's bill, there is low value to customers from alterations to retailer cost recovery against the high impact retailers can have on customers through their bill management services such as payment plans, energy efficiency advice and its YES program.

² ACCC, Inquiry into the National Electricity Market – November 2021 report, November 2021, p.29, p.34

³ <https://www.energycouncil.com.au/analysis/new-year-new-regulated-pricing-approaches/>

⁴ ACCC, Inquiry into the National Electricity Market – December 2023 report, p.4

As outlined in its submission to the Power Prices Inquiry, it is Aurora Energy's recommendation that retailers remain sustainable and available to provide the best level of service possible to meet the needs of the evolving Australian energy market. To do this, however, profitability must be sufficient to allow the required ongoing investment in digital transition of customer experience and new product offerings. The progression of solar generation, electric vehicles and battery storage will continue to advance and the capability of Aurora Energy to meet these growing needs is vital.

3.2 Wholesale Market Exposure

Acting as an energy retailer is a challenging prospect regardless of whether that retailer is privately owned or government owned. Retailers are the risk managers for their customers, undertaking complex wholesale market hedging arrangements to ensure customers are not exposed to the volatility of the NEM spot market whose prices can alter every five minutes. Energy prices in the NEM spot market under current the market design are one of the most volatile commodities in the world. Aurora Energy manages this volatility and transforms it into known and stable tariff formats.

Retailers require an expert skill set when purchasing the wholesale energy needed to meet the retail load they are required to service. Given the complexity of the NEM and its financial instruments (such as hedge contracts) a fine balance is required in managing load and potential variations in wholesale market costs over a multi-year period. If this balance is incorrectly managed or becomes unsustainable, a retailer failure event may occur, as noted above with Elysian Energy in 2022.

In Tasmania, the wholesale market is both homogenous in its operation through the NEM spot market but at the same unique due to the dominant form and supply of generation through Hydro Tasmania.⁵ Further, the Tasmanian wholesale market is inherently exposed to the patterns and trends of the broader NEM spot market and Aurora Energy is required to execute a strategic approach to managing this risk. This is done through dedicated resources, clearly stated commercial and risk appetite statements, and underpinned by a Board-approved energy risk management policy.

To support Tasmania more broadly in managing elements of wholesale market risk, additional regulation is required and is overseen by the Tasmanian Economic Regulator. It is Aurora Energy's view that these current wholesale market contract instruments function appropriately and, whilst these are currently under review⁶, there are only minor amendments required to ensure their ongoing effectiveness. Across the top 10 nationally authorised retailers (by size and load), Aurora Energy is the only retailer that doesn't have its own generation support. Without this 'physical' backing it is vital that regulatory arrangements with Hydro Tasmania are commercially fair and balanced.

Regarding broader wholesale market developments, Aurora Energy is aware of a number of significant major energy projects in Tasmania such as Project Marinus, Battery of the Nation and the establishment of a Tasmanian green hydrogen industry. The proposed future increases in inter-connection between Tasmania and mainland Australia does have the potential to alter the retail landscape in Tasmania, particularly competitive market activity. Aurora Energy is building its capabilities as a competitive, skilled retailer in response to these changing conditions.

⁵ <https://www.economicregulator.tas.gov.au/electricity/pricing/wholesale-pricing/wholesale-pricing-explained>

⁶

<https://www.economicregulator.tas.gov.au/Documents/23%201958%20%20Notice%20of%2023%2024%20investigation%20%28wholesale%20contract%20regulatory%20instrument%29%20-%20Website%20Only.pdf>

Aurora Energy will continue to monitor Tasmania's major energy projects noting the decision points and frameworks for delivering major projects are largely outside the scope and control of Aurora Energy.

3.3 *Evolving Regulatory Framework*

Whilst Aurora Energy supports the ongoing transition of the Australian energy sector, the evolving nature of the NEM in response to growing technologies and customer needs has established a pattern of extensive and ongoing regulatory reforms.

Over the last decade, the series of reforms have ranged from entering into a national framework for consumer protection, to the introduction of advanced meters to Tasmania, then to significant changes to introduce a new 'five-minute settlements' process for interacting with the wholesale energy market. All these changes have triggered major projects of work for Aurora Energy with material costs and resource drain.

There are more major reforms on the way with changes to how customer data can be shared and accessed through a 'Consumer Data Right' and other changes around the Australian Energy Market Operator's (AEMO) market systems to better support the progression of the Australian energy sector to one based on clean, green energy and supporting formats such as distributed energy.

This pipeline of work is so considerable that AEMO operates a multi-tiered engagement approach and regulatory roadmap⁷ to ensure all market participant are informed, engaged and ready to comply with the relevant market updates.

Where these outcomes challenge Aurora Energy is from a 'one-size fits all' approach that does not always produce equivalent benefits for Tasmanian consumers, despite the significant contribution to their realisation. There is also no guarantee within these reforms that the cost of project delivery can be easily absorbed by smaller retailers with much smaller customer bases, compared to the 'Big 3' retailers (AGL, Energy Australia and Origin Energy). For example, whereas Aurora Energy has just over 270,000 customer connections, a retailer like Origin Energy has over four million customer connections across which it can defray its costs.

As highlighted in the above sections, Aurora Energy provides a unique foundation level of support for Tasmanians. To ensure it can keep providing this support in a sustainable manner, it requires recognition of the challenges it faces in keeping up with the fast-paced evolution of regulatory frameworks. These are challenges that are difficult to address from the viewpoint of Tasmania, especially when driven at a national level, however, it is important context to understanding the capacity for retailers to respond to changing market conditions.

4. **Updated aspects of submission to Energy Prices Inquiry**

A key point to update from the Energy Prices Inquiry submission from Aurora Energy is that since this was provided, the Tasmanian Economic Regulator has released its latest version of the report *Comparison of Electricity and Gas Prices Available to Small Customers in Australia*. The updated price comparison report highlights that Tasmania has the lowest regulated electricity prices in Australia.⁸

⁷ <https://aemo.com.au/en/initiatives/major-programs/nem-reform-implementation-roadmap>

⁸ <https://www.economicregulator.tas.gov.au/electricity/reports/price-comparisons/standing-offer-price-comparison-reports>

As articulated in Aurora Energy's submission Legislative Council Energy Prices Inquiry, there are factors that shape a customer's experience with their energy bill, not the least the level of consumption in their home or business. However, it is welcome news that Tasmanian electricity unit prices are low. When working in tandem with the range of Aurora Energy support measures and those offered by the State and Federal Governments, Tasmanians can be assured there is every effort being made to limit current cost-of-living pressures.

5. Aurora Energy Future Focus

As highlighted in Section 2.2, Aurora Energy identified a range of challenges it is facing over the coming period in growth in competition, evolving customer expectations and continued disruption in the energy sector nationally. However, paramount to these issues are increasing and ongoing cost-of-living pressures in the Tasmanian community.

Supporting customers impacted by cost-of-living pressures remains a key focus with targeted programs such as Aurora Energy's nation-leading YES (financial hardship) program working alongside financial support payments under the State and Federal Government's Energy Bill Relief Fund that will continue into 2024-25.

Another key focus is also on service continuity which has seen Aurora Energy evolve its frontline model in pursuit of improved operational and customer outcomes with higher levels of performance achieved in the first half of 2023-24.

In response to changing customer needs and expectations, Aurora Energy's digital focus will only grow across future years. In January 2024, Aurora Energy launched 'Power Hours' to encourage its over 80,000 aurora+ customers to engage with this digital channel. Each 'Power Hours' event gives Tasmanians the opportunity to use unlimited electricity, free of charge in an available time slot of their choice. Aurora Energy has also completed over 70 per cent of the advanced meter installation program across the state with more than 200,000 meters installed.

Customer and market feedback on Aurora Energy's digital products so far confirms higher engagement, less bill shock and greater ability to control energy usage through adoption of such digital channels and data insights. Maximising this uptake is critical to achieving the purpose of Aurora Energy to make energy easier for all Tasmanians.

Finally, the widespread change that is being experienced as part of the broader energy industry presents new and exciting opportunities for Aurora Energy to further support its customer base and help Tasmania realise its full renewable energy superpower potential. Aurora Energy is currently undertaking feasibility assessments for a range of non-traditional forms of energy supply, such as power sharing arrangements, virtual power plants and the wide range of community battery models. Investigating and potentially investing in these new modes of energy will assist Aurora Energy in retaining value and building expertise to support Tasmanian energy use over the years to come.