

Contact: Andrew Knowles  
Phone no: (03) 6270 3695  
Our Ref: NW30458481  
Your Ref: ERC0149



3 July 2013

Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Dear Sir

**Rule Change Consultation: Annual Network Pricing Arrangements**

Thank-you for the opportunity to provide input to the Consultation Paper *National Electricity Amendment (Annual Network Pricing Arrangements) Rule 2013* (the "Consultation Paper"), released on 6 June 2013.

Aurora Energy Pty Ltd, ABN 85 082 464 622 (Aurora) is an incorporated, State Government owned fully integrated energy and network business, with complementary activities in telecommunications and energy-related technologies. Aurora provides electricity generation, retail and distribution services to more than 270,000 customers in the Tasmanian jurisdiction. In this document, reference to Aurora should be taken as reference to Aurora in its capacity as the provider of distribution network services licensed by the Regulator under the *Electricity Supply Industry Act 1995* (Tas). Aurora will limit its response to those issues that related directly to itself in this capacity.

Aurora welcomes this review of time-frames surrounding the submission and approval of the annual pricing proposals. In Tasmania, the late approval of network tariffs has led to challenges for Aurora's retailer to assess and model the effects of network tariff changes upon retail tariffs that are subject to regulatory approval. Nonetheless, requiring Aurora to lodge its pricing proposal earlier than currently required under the National Electricity Rules raises several issues, including:

- in its distribution determination, Aurora is required to use the March quarter CPI, which does not become available until the last week of April. If Aurora should lodge its annual pricing proposal before the relevant CPI is published, Aurora would need to estimate the March CPI to be used in calculating revenue and tariffs and, further, allow a sufficient under recovery to ensure that the Maximum Allowed Revenue requirement in its distribution determination is not breached;
- the data-set used for estimating consumption and demand for the current regulatory year, so that the under or over recovery may be estimated, will be smaller;
- Aurora's customers on specified demand network tariffs must estimate their demand for the forthcoming regulatory year using a small data set, half-way through the current regulatory year, increasing the possibility that they will change their specified demand either closer to, or during, the next regulatory year;
- legislated pass-through amounts may not be available from the relevant bodies.

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Each of these issues adds uncertainty to Aurora's forecasting and, in consequence, potential additional variability to the under- or over-recovery of allowable revenue under Aurora's revenue cap, which may increase volatility in network tariff variation.

In relation to the Initial Pricing Proposal, Aurora notes that there is already very little time between the publication of the final distribution determination and the lodgement of the proposal. Bringing forward the lodgement of the Initial Pricing Proposal would require either that the distribution determination process be brought forward, or that the Initial Pricing Proposal be based on estimates of the determination outcomes.

Aurora considers that the AER should be required to assess the pricing proposals within 20 days of receipt of a compliant pricing proposal, with the assessment of compliance being made within 10 days of receipt of the pricing proposal.

While Aurora supports public consultation on tariffs (both network and retail), the opportunity for Aurora to significantly alter its network tariffs in response to public comment within a regulatory control period is limited by the side-constraint mechanism imposed in its distribution determination.

Aurora considers that the approval of annual prices being linked to how accurately it can "track the statement" of expected price trends to be of limited use. Aurora's price trends within a regulatory control period are a function of the side constraint mechanism and the accuracy of its demand and consumption forecasts. The former is beyond Aurora's control; and linking approval of tariffs to the accuracy of forecasts is indistinguishable from introducing an incentive scheme to forecasting, which Aurora considers to be inappropriate.

If you have any questions, please address them to the contact noted above.

Yours faithfully



Anton Voss

General Manager Commercial, Regulatory and Strategy  
Distribution Business  
Aurora Energy