



Media Release
10 June 2011

APPROVAL OF 2011-12 ELECTRICITY RETAIL TARIFFS

The Tasmanian Economic Regulator has approved an 11 per cent increase in Aurora Energy's electricity charges to non-contestable customers. This 11 per cent is higher than the 8.5 per cent that the Tasmanian Economic Regulator estimated when it made its 2010 determination of prices in October 2010.

Mr Glenn Appleyard, the Chairman of the Tasmanian Economic Regulator, said "The 8.5 per cent was based on Aurora Energy's estimates in October 2010 of electricity network charges and costs to purchase renewable energy certificates (RECs) under Federal renewable energy schemes. The actual costs have proven to be greater than was estimated."

Mr Appleyard said that the extra 2.5 per cent reflects actual network charges and REC costs that are costs over which Tasmanian electricity retail businesses, including Aurora Energy, have no control. Other costs include wholesale energy costs and Aurora Energy's retail costs which have not changed since the 2010 determination.

Of the extra 2.5 per cent increase, actual network charges account for around two per cent while the additional REC costs make up the balance.

Last week, Aurora Energy sought the Tasmanian Economic Regulator's approval for the increase to its retail tariffs for the period 1 July 2011 to 30 June 2012. After review of the estimates by the Office of the Tasmanian Economic Regulator, Aurora Energy made some adjustments.

The increase conforms with the Regulator's 2010 price determination. The Regulator's reasons for the approval are set down in a Statement of Reasons that is published on its website.

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Copies of Aurora's Retail Tariff Pricing
Proposal and the Regulator's Statement of
Reasons for the Approval of Retail Tariffs
are available at:
www.economicregulator.tas.gov.au
Go to *What's New*

FACT SHEET

What makes up electricity prices?

The Tasmanian Economic Regulator, which is independent of Government, approves the maximum prices that Aurora Energy can charge its tariff customers. This ensures tariff customers are paying a cost-reflective price for these services.

The Tasmanian Economic Regulator does not approve the prices that Aurora Energy charges for customers using Aurora Pay As you Go pre-payment meters, or prices for contestable customers buying power through a contract with Aurora or another retailer.

The bill amount that is charged to tariff customers is made up of a number of different components and the price for each is determined by different bodies. That is, the Tasmanian Regulator does not set the price of each component of the total price shown on customers' electricity bills.

Generation

Aurora Energy buys electricity from generators on behalf of its customers. Government regulations set down how the Regulator must estimate Aurora's costs to buy this electricity.

Network charges

Customers also pay for the transport of the electricity, from the electricity generators, across the electricity transmission and distribution networks.

The Australian Energy Regulator, a national body, sets the prices that customers pay to use the transmission network, owned and operated by Transend Networks.

The Tasmanian Economic Regulator currently sets the prices that customers must pay to use the distribution network owned and operated by Aurora Energy. From 1 July 2012 the Australian Energy Regulator will set these prices.

On 30 May 2011, Aurora made a submission to the Australian Energy Regulator in respect of distribution network prices for the period 1 July 2012 to 30 June 2017. The Australian Energy Regulator will consider Aurora's submission and make a final decision in early 2012 on prices Aurora may charge for use of the distribution network from 1 July 2012.

In setting network prices, the two regulators have estimated the costs involved in transporting electricity across the networks. Each year, transmission and distribution prices are adjusted to take account of allowable costs. Usually these prices change on 1 July each year.

In mid April 2011 Aurora Energy made a submission to the Tasmanian Economic Regulator to adjust its network charges from 1 July 2011, which the Tasmanian Economic Regulator approved. The main reason for the increase in the network tariffs on 1 July 2011 was that Aurora had not recovered all of the revenue it was entitled to earn during 2010-11.

Retailing

Aurora Retail, which is another arm of Aurora Energy, provides a retail service to customers. This includes providing billing, account management, call centre costs and issuing electricity bills.

The Tasmanian Economic Regulator decides the appropriate amount that customers should pay for these retail services, including a retail margin. The retail margin compensates Aurora Energy for its investment in the business and for the risks it takes in providing electricity services. These retail costs make up around eight per cent of the electricity charges.

Aurora is also required to pay a specified fee each year to the Australian Energy Market Operator to contribute to its running costs and managing the electricity market. These costs must also be recovered from customers.

In addition, Aurora is required under Commonwealth law to buy a certain number of renewable energy certificates and surrender them to the Office of the Renewable Energy Regulator. This cost must also be recovered from customers and is payable regardless of the source of generation.

The regulators' role in electricity pricing

One of the roles of the Tasmanian Economic Regulator is to combine these costs to determine what is a cost-reflective electricity price for households and small business tariff customers to pay.

In setting the prices of each of the components of the electricity price, the Australian Energy Regulator and the Tasmanian Economic Regulator seek to protect customers from the risk that Transend Networks and Aurora Energy (as distributor and retailer with an exclusive franchise to sell electricity to small business and residential customers) may misuse their monopoly power which can arise from there being no competition for their services.

The regulators ensure that customers are paying the minimum but fair cost for the services and that these services are delivered to an appropriate standard.

Frequently asked questions

OTTER has published, on its website www.economicregulator.tas.gov.au, answers to some frequently asked questions about electricity pricing.