Tasmanian Council of Social Service Inc.

TasCOSS Submission to 2025 Regulated Retail Electricity Pricing Investigation Draft Report

March 2025

TasCOSS

INTEGRITY
COMPASSION
INFLUENCE

About TasCOSS

TasCOSS's vision is for one Tasmania, free of poverty and inequality where everyone has the same opportunity. Our mission is two-fold: to act as the peak body for the community services industry in Tasmania; and to challenge and change the systems, attitudes and behaviours that create poverty, inequality and exclusion.

Our membership includes individuals and organisations active in the provision of community services to Tasmanians on low incomes or living in vulnerable circumstances. TasCOSS represents the interests of our members and their service users to government, regulators, the media and the public. Through our advocacy and policy development, we draw attention to the causes of poverty and disadvantage, and promote the adoption of effective solutions to address these issues.

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Introduction

TasCOSS welcomes this opportunity to make a submission to the Tasmanian Economic Regulator's (the Regulator) *2025 Regulated Retail Electricity Pricing Investigation Draft Report* (the Draft Report).

For Tasmanian households, electricity bills typically represent the second-largest expense, after housing costs. For residential customers on low incomes, electricity costs consume a higher proportion of their incomes than other customers.

The Regulator's final decision for standing offer prices will have a significant impact for the 260,000 residential customers in Tasmania, around 93% of which remain on regulated tariffs. This is in stark contrast to other National Energy Market (NEM) jurisdictions where customers enjoy greater access to market offers, with only 20% of residential customers on regulated prices NEM-wide.

In a retail electricity market where there is limited competition and a significant proportion of customers on standing offers, it is incumbent on the Regulator to ensure that customers are protected and have access to the lowest possible electricity prices. The Draft Report acknowledges this:

> *It is by examining each cost component that the Regulator seeks to ensure that standing offer customers pay no more than they should for the services they receive. (p. 16)*

TasCOSS supports the Regulator in this endeavour and our submission sets out our key considerations for driving greater efficiency and delivering lowers costs, so that households in Tasmania will benefit from more affordable and competitively priced electricity that will support them to maintain healthy homes and a decent standard of living.

Consultation Period

A four week consultation period to comprehensively assess and respond to both Aurora Energy's (Aurora) preliminary submission and the Office of the Tasmanian Economic Regulator's (OTTER) Draft Report is inadequate.

For the previous price investigation in 2022, when an attempt to reduce the consultation period to four weeks incensed consumer advocates, OTTER responded by extending the consultation period by one week. No such extension was considered when concerns about the shortened consultation period were raised last year.

Aurora is not the only key stakeholder that should be accommodated in this process. So too are the 260,000 Tasmanian residential customers that will be impacted by the Regulator's final decision. In the absence of a dedicated energy consumer advocate, the organisations that are advocating on behalf of energy customers must be afforded appropriate opportunity to allocate their scarce and competing resources to allow for full engagement in this process.

Good practice is to allow for a six week minimum period for community consultation, but better practice would be to engage with all key stakeholders in the design of project timelines to understand their needs and timeframe requirements and build those into the consultation timeline.

Key Issues

Cost to Serve

The Regulator's draft decision is to allow a cost to serve (CTS) allowance of $172.70 ($2023-24) per customer, less than Aurora's proposed cost to serve allowance of $196 ($2023-24) per customer. When indexed, the Regulator's draft decision is estimated to result in an allowance of $184.58 per customer in 2025-26.

The Regulator has relied on a Cost Allocation Manual (CAM) and CTS Model to assess Aurora's cost components that it has not made public, meaning there is no transparency in relation to changes in these costs or whether they are efficient costs, especially in relation to bad debts, *aurora+* and costs to acquire and retain customers (CARC).

Bad Debts

Aurora expects its bad debts expense will increase over the next regulatory period, a finding the Regulator has not supported, based on available data at the time of writing the Draft Report showing the number of residential customers in debt and the total value of residential debt has been trending down.

This is a troubling acknowledgement from Aurora that there will continue to be an increasing number of customers who cannot afford their energy supply. TasCOSS shares Aurora's concerns based on:

- Electricity prices that are anticipated to increase again from 1 July 2025, on top of price increases of 23% in three years.
- More recent customer debt data to that used by the Regulator in the Draft Report, showing the numbers of customers in debt increasing by 5.8% in the past six months.
- Customer debt numbers that have trended up over the last five years, doubling since the COVID-19 pandemic.
- Bill rebates of up to $800 that are being slashed to $150 from 1 July 2025.
- Customers being unable to access bill support through the Tasmanian Government's *Energy Hardship Fund* due to it being oversubscribed as a result of excess demand.

While we disagree with the Regulator's assessment in the Draft Report that there is insufficient evidence that Aurora will face higher bad debt expenses, we also disagree that the amount of debt written off as uncollectable is the most appropriate measure to represent Aurora's bad debt expense. This is essentially a pass through of bad debt costs that provides little incentive to Aurora to better manage its bad debts risk. This is one example of where an efficiency factor could be applied to Aurora's costs to incentivise a more efficient management of bad debt expense.

Aurora should be incentivised to avoid and better manage its doubtful debts through a range of risk management and customer support measures that will reduce its bad debts. This includes better promoting and removing barriers to entering the YES program, early identification of customers that may be experiencing payment difficulty, and supporting advocacy efforts to raise the rate of income support payments.

One-Off Adjustments

TasCOSS supports the Regulator's approach to remove one-off costs proposed by Aurora, including the implementation of the Energy Bill Relief Fund. However, these are one-off or non-ongoing costs that will not be incurred in the next regulatory period. They should be removed, but do not represent an implicit efficiency gain and should not be used as justification for not applying an efficiency factor.

Efficiency Factor

The Draft Report notes the Regulator intends not applying an explicit efficiency factor to Aurora's CTS for this determination as the Regulator is of the view that approving a CTS allowance for Aurora that is slightly below its total cost build up implicitly incudes an efficiency factor.

We are disappointed the Regulator is not intending to apply an efficiency factor as there is no basis provided that an efficiency factor is implicitly included in the CTS, other than the removal of one-off costs.

Aurora should be committed to operating as efficiently as possible and until there is clear evidence that it has reached an 'efficiency frontier,' Aurora should be incentivised to find as many efficiency gains as possible.

aurora+

TasCOSS welcomed the Regulator's action to reduce *aurora+* costs to $9.08 in the previous determination, but our position remains that it should be removed from the CTS.

A $2.4 million per year income stream for the *aurora+* app was granted in 2022, with this revenue now hidden for the next regulatory period, denying any analysis of whether the allocated costs are reasonable or efficient.

aurora+ should be driving efficiencies and savings for Aurora that exceed its operational costs. So long as *aurora+* is treated as a revenue raising IT project, Aurora will not be incentivised to operate it as efficiently as possible.

Costs to Acquire and Retain Customers

A CARC allowance is not identified in the Draft Report making it impossible to determine if the amount of CARC allowed is reasonable or efficient.

Aurora has continued to maintain its position as the dominant retailer in the Tasmania, despite an increase in retail competition. This suggests Aurora's CARC is not justified and may be excessive.

CARC does not create an effective means of incentivising retail innovation or competition in the market that benefits consumers. Given Aurora is not exposed to strong competition, reducing CARC would provide a much stronger incentive to either be more efficient or develop other services which consumers value.

Summary

On the basis of the above assessment, TasCOSS considers that Aurora's CTS could be reduced further than the Regulator's draft determination of $184.58. Taking into account a reduction for CARC, *aurora+*, bad debts and an efficiency factor alone, the CTS could be reduced by more than $30 per customer.[1]

Retail Margin

The Regulator intends allowing Aurora a retail margin of 5.25% based on a fixed dollar amount and percentage of costs, or $117 per customer. This is an increase of 16% over three years and the projection for 2025-26 of a 3.8% increase is well above Hobart CPI that is currently 1.5% and has been trending down.

In our submission to the previous determination process, TasCOSS urged the Regulator to set a retail margin closer to the lower bound identified by Frontier Economics, due to the relatively

[1] Based on a simple calculation of an estimated $9 *aurora+*, $7 bad debts (50% of five year average) and $15 CARC (difference between Big 3 and average CARC).

low risks Aurora faces, lower retail margins across the NEM and Aurora's dominant market share. There is no argument presented in the Draft Report that convinces us that position should change.

Allowing Aurora an excessive retail margin increases electricity prices for households and is counter the principle stated above that the Regulator must ensure *"customers pay no more than they should for the services they receive."*

It would be appropriate recognition of the significant impact that rising electricity bills have on household budgets in a cost of living crisis, if instead of retaining a comfortable retail margin of 5.25% for a dominant retailer, the Regulator acted in the best interests of consumers and moved towards the lower end of the range of retail margins of 4.5%.

Renewable Energy Target Costs

TasCOSS welcomes an expected reduction in the Draft Report of Renewable Energy Target (RET) costs to $29 million.

RET costs are a hidden subsidy whereby those who are least likely to be able to benefit from them are disproportionally paying the most for them. TasCOSS has previously recommended that RET costs be transparently funded through government budgets and moved off customer bills. This would see charges well-exceeding $100 per customer, per year, removed from household electricity bills.

While TasCOSS appreciates resolving this issue is out of scope for this pricing decision, we urge the Regulator and OTTER to leverage its influence by raising this issue with the Government to progress through the National Energy Transformation Partnership or Energy and Climate Change Ministerial Council, as part of their ongoing work on energy affordability and equity.

Metering Costs

The Regulator intends continuing to use the current approach to calculating metering costs and extend the current approach for excluding market contract customers on Tariff 22 to all tariffs that have customers on market contracts for basic meter cost calculation. In accordance with the Australian Energy Regulator (AER's) determination, the Regulator also intends continuing to allow Aurora to pass through TasNetworks' capital costs in relation to accumulation meters.

While we support the accelerated rollout of advanced meters, TasCOSS is becoming increasingly concerned regarding the significant rise and lack of transparency on advanced metering costs. We encourage the Regulator to take an active role in examining and monitoring metering costs to ensure costs are efficient, and provide greater clarity regarding the actual costs faced by retailers (revealed through their contracts with metering coordinators) including any offsets to those costs.

Unaccounted for Energy

The Draft Report treats unaccounted for energy (UFE) as part of Aurora's wholesale electricity costs rather than as a separate cost component. Aurora has raised concerns over the treatment of UFE leading the Regulator to consider that further work may be needed to fully understand the impact that the treatment of UFE has on Aurora's costs.

We support the Regulator's approach to the treatment of UFE. The wholesale energy costs component already accounts for UFE costs and with retailers responsible for system losses they will be incentivised to address them, rather than simply passing another cost on to customers.

Late Fees and Charges

The Regulator intends approving an 80% increase in Aurora's late payment fee from $5 to $9.

While this is a welcome reduction from the 140% increase to $12 Aurora was seeking, there has been no justification for increasing this fee other than a comparison with other retailers and that it has not changed in two decades. Aurora is merely seeking to increase its revenue at the expense of those most unable to afford it — that is, those unable to pay their bill.

If a customer is late paying their electricity bill, it could be for any reason from one extreme of simply forgetting when it was due, to the other extreme where they literally cannot afford to pay.

In the former instance, a friendly email or text reminder, at a system cost of significantly less than $9, may trigger payment. In the latter instance, imposing further costs and charges on a customer who already can't pay is punitive, futile and will only add to the financial burden and stress they are experiencing. In between, there are a range of strategies Aurora could pursue to support customers to manage their bills, instead of penalising them with higher fees.

In the 2021-22 financial year, Aurora stated it generated about $330,000 from late payment fees, meaning around 66,000 customers were hit with additional costs.[2] While Minister for

[2] Legislative Council Government Business Scrutiny Committee (2024), Aurora Energy Pty Ltd Transcript, Parliament of Tasmania, 3 December, p. 13.

Energy, Hon Nick Duigan MLC, expressed *"that you would expect a vast decrease in that number due to the new lofty $12 late payment fee"*[3]*,* the counterfactual is that with rising electricity prices, increasing numbers of customers entering debt and bill rebates being slashed, more customers will not be able to pay on time. In this scenario, the Regulator's draft decision will gift Aurora more than $600,000 per year to be paid by those who are already unable to pay their bills.

Also in Government Business Scrutiny hearings, Aurora stated it stopped collecting late payment fees for a six month period due to the billing system functionality not working properly.[4] It would be interesting to see data on whether not imposing a late fee had any impact on the number of late payments — did the number of late payments increase or decrease, and by what proportion, without the application of a late payment fee?

Any application for increases in fees and charges should be examined to ensure they are cost reflective reasonable costs. Aurora has not provided any such evidence and its proposal comes at the same time as the Australian Energy Market Commission (AEMC) is considering a rule change request to remove specific fees and charges that retailers typically levy — including late payment fees — to improve protections for consumers.

If the Regulator is determined to approve an increase in fees for late payments, it should provide a directive that Aurora divert any revenue raised into customer support measures, such as debt relief, expanding the Your Energy Support (YES) program or measures to better identify customers at risk of payment difficulty or payment default, to ensure the increase is not a de facto tax collected for the state government.

[3] House of Assembly Government Business Scrutiny Committee (2024), Aurora Energy Pty Ltd Transcript, Parliament of Tasmania, 4 December, p. 25.

[4] Ibid.

Recommendations

TasCOSS makes the following recommendations in response to the Draft Report:

1. **Allow for a minimum six week period for community consultations.**
2. **Provide greater transparency in relation to components of the Cost to Serve and further reduce the Cost to Serve by $30 per customer.**
3. **Apply an efficiency factor to the Cost to Serve as per the previous determination.**
4. **Reduce the retail margin closer to 4.5%.**
5. **Advocate to the Tasmanian Government for RET costs to be moved off customer bills.**
6. **Provide greater clarity and transparency in relation to metering costs.**
7. **Reject increases in late payment fees.**