COTA TASMANIA
for older Australians

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Submission: Aurora Energy Risk and Retail Margin Review

1. Overview

COTA Tasmania welcomes this review. The retail margin should reflect Aurora Energy's actual retained risks and support an efficient retail service. The review should test whether the existing allowance is justified and whether its design delivers fair outcomes for customers, including older Tasmanians on low or fixed incomes.

A rise in approved costs or limited competition should not, by itself, justify a higher return. Customers should receive the benefits of operational improvements, and the Regulator should explain how the allowance recognises efficient investment and the risks Aurora bears after contractual and regulatory protections are taken into account.

COTA's March 2022 submission called for stronger benchmarking and passing efficiency gains to customers.[1] In March 2025, COTA supported the hybrid margin approach in principle while questioning its level, indexation and treatment of market offers.[2]

This review provides an opportunity to test those concerns against updated evidence.

2. About COTA Tasmania

COTA Tasmania is the peak body advocating for the rights, interests and wellbeing of older Tasmanians. We provide independent, evidence-based advice to government and work to ensure that older people's experiences and priorities inform policies and services that affect their lives.

Our advocacy recognises the diversity of older Tasmanians and seeks to support their independence, participation and access to essential services. We have a particular interest in the affordability of electricity and the effects of pricing decisions on people with limited capacity to absorb additional costs.

3. Why this matters for older Tasmanians

Electricity is essential for heating, hot water, cooking and many health-related needs. For older people on low or fixed incomes, even a modest bill increase can require difficult choices between these needs and spending on food, healthcare or other essentials. The practical effect of the retail margin therefore matters as much as the methodology used to calculate it.

Older customers are not a uniform group. Some live alone and use relatively little electricity; others have high essential consumption because of health needs, housing conditions or time spent at home.

Low consumption may reflect efforts to ration heating rather than an absence of need. A pricing decision that appears manageable for the median customer can have a different effect on these households.

Customers also differ in their ability to access market offers, digital tools or investments that reduce bills. The review should assess whether the benefits of efficient retailing reach customers who remain on standing offers, including those who need telephone assistance or support to understand their options. Affordability should be tested through actual bill impacts across household groups.

4. Recommendations

1. Assess Aurora's retained risks after mitigation, together with its market position and the competitive pressure it actually faces.
2. Use ACCC evidence on realised retail margins as a central benchmark, with transparent adjustments for relevant differences between retailers and markets.
3. Test the 50:50 hybrid formula, fixed-component indexation and credible alternatives against efficient investment, retained risk and customer outcomes.
4. Reconcile recovery across cost to serve and the retail margin, avoid duplicate recognition and ensure technology efficiencies flow through to customers.
5. Publish bill impacts across consumption and household groups, including concession and hardship customers, rather than relying on an average or median customer.
6. Involve consumer organisations during the current review and publish sufficient evidence and reasoning to support informed scrutiny.

5. Detailed comments

5.1 Identify the risks Aurora actually retains

The terms of reference identify energy purchase risk, customer number and volume risks, regulatory risk and under-recovery and over-recovery mechanisms.[3] The review should identify each material exposure, its likely financial effect, the available mitigations and which party ultimately bears it.

Aurora should explain how contracts, operational controls and regulatory recovery arrangements reduce its exposure. The relevant consideration for setting the margin is the risk remaining after these protections. Evidence should cover an appropriate period and distinguish recurring volatility from exceptional events.

The review should examine Aurora's market position, barriers to entry and actual competitive pressure.

Ownership alone does not determine risk. Comparisons should include the range, uptake and effective prices of discounted offers in Tasmania and mainland markets, customer switching and acquisition and retention costs. Limited product choice warrants investigation of weak competition, but does not establish that every business risk is low.

5.2 Show where costs and risks are recovered

The terms explain that financing and depreciation may be recovered through the margin where they are not otherwise included in notional maximum revenue, and identify billing-system depreciation as an example.[4] The review should provide a clear reconciliation showing where costs are recovered and what the margin compensates.

Financing, depreciation, working capital and bad debt costs or exposures should not be recognised more than once across cost to serve and the margin. Aurora should demonstrate the efficient investment and retained risk that justify its return. The concurrent debt collection review should inform this assessment so that the combined effect of both reviews on customer prices is clear.

Where aurora+ or billing systems contribute to costs, the review should examine the resulting efficiencies and customer benefits. COTA's 2022 submission argued that technology benefits should offset service costs.[5] Ongoing recovery should reflect efficient maintenance, remaining investment requirements and realised savings; a development-stage allowance should not be assumed to remain appropriate indefinitely.

5.3 Test the hybrid formula against alternatives

The current method combines a CPI-indexed fixed dollar-per-customer amount with a variable percentage of approved costs excluding the margin, using a 50:50 split.[6] The review should test whether the split and indexation remain justified by Aurora's retained risks and investment requirements.

In particular, it should examine whether increases in wholesale or other approved costs increase the dollar margin without a corresponding increase in retained risk or investment. It should also test whether changes in customer numbers or consumption create exposures appropriately addressed by the fixed component.

Credible alternatives should include no automatic CPI indexation of the fixed component, a lower percentage or narrower cost base for the variable component, and an independently benchmarked per-customer allowance. Each should be assessed against efficient service, retained risk and bill impacts. COTA seeks an evidence-based result rather than nominating a replacement rate before that assessment.

The revenue formula's fixed component is not necessarily a fixed tariff charge. The review should trace the allowance into actual tariffs and bills. Modelling should cover consumption quintiles, single and couple households, concessions, hardship and high essential heating needs where data permit. It should show fixed and usage charges, dollar changes and affordability effects, with assumptions and data limitations disclosed.

5.4 Use comparable benchmarks and publish the reasoning

COTA recommends using the ACCC's analysis of observed retail margins as a central benchmark, alongside regulatory allowances.[7] Any difference between Aurora's allowance and comparable realised margins should be explained.

Observed margins and regulated allowances are not interchangeable: comparisons must align cost definitions, years, customer groups and the mix of standing and market offers.

Several years of evidence should be used to avoid basing an ongoing allowance on an exceptional profit year. An adjustment for Tasmania's market size or efficient service obligations should be modest, quantified and justified. An allowance intended to encourage entry should require evidence of lower bills or better service; attracting retailers to a high-margin market is not itself a consumer benefit.

Comparisons should assess annual bills for comparable usage and customer needs, rather than unit prices alone, and test whether discounts are accessible in practice. Non-confidential assumptions and reasoning should be published so that stakeholders can assess the conclusion.

5.5 Include consumers during the review

The proposed process engages Aurora and competing retailers directly, with wider stakeholder consultation through the next pricing investigation in 2027.[8] Retailers can provide important information, but consumer organisations should also help shape the questions and assumptions before initial conclusions are formed.

COTA recommends targeted engagement with COTA and TasCOSS during the current review, access to a non-confidential summary of emerging findings and an opportunity to respond. The issues paper should clearly explain how risks are shared between Aurora and standing offer customers. The Regulator should confirm the timetable, given references to both mid-2027 and September 2027 in the terms.

6. Conclusion

This review should establish a clear, evidence-based connection between the return Aurora receives, the risks it retains and the quality and efficiency of its retail service. An allowance justified primarily by historical costs or comparisons with other regulated allowances may fail to capture the benefits that effective competition and improved operations should deliver to customers.

For older Tasmanians, the test is whether the resulting bills are fair and affordable across different circumstances. The Regulator should demonstrate how the proposed approach affects customers with low consumption, high essential needs, concessions or payment difficulties, and ensure that efficiency gains are reflected in prices.

COTA Tasmania supports a sustainable retailer earning a reasonable return. We seek a framework that also places clear responsibility on Aurora to manage costs and risks efficiently, gives consumers meaningful input and makes the basis for its margin transparent. We welcome continued engagement as the review progresses.

Sources

1. *COTA Tasmania, Reply on the Draft 2022 Standing Offer Electricity Price Investigation, 24 March 2022, sections on cost to serve and the retail margin.*
2. *COTA Tasmania, 2025 Regulated Retail Electricity Pricing Investigation feedback on the Draft Determination, March 2025, pp 10–11. Published on the Regulator's 2025 Standing Offer Investigation and Determination webpage.*
3. *Office of the Tasmanian Economic Regulator, Review of Aurora Energy's risk profile and retail margin methodology - Terms of Reference, September 2026, Current approach and Scope.*
4. *Office of the Tasmanian Economic Regulator, Review of Aurora Energy's risk profile and retail margin methodology - Terms of Reference, September 2026, Current approach.*
5. *COTA Tasmania, Reply on the Draft 2022 Standing Offer Electricity Price Investigation, 24 March 2022, sections on cost to serve and the retail margin.*
6. *Office of the Tasmanian Economic Regulator, Review of Aurora Energy's risk profile and retail margin methodology - Terms of Reference, September 2026, Current approach.*
7. *Australian Competition and Consumer Commission, Inquiry into the National Electricity Market reports, including the December 2024 report's analysis of retailers' costs and margins. Updated evidence should be used when the review is undertaken.*
8. *Office of the Tasmanian Economic Regulator, Review of Aurora Energy's risk profile and retail margin methodology - Terms of Reference, September 2026, Consultation strategy and Key tasks and milestones.*