



Operating Plan 2015-16

of the

Office of the Tasmanian Economic Regulator

JUNE 2015

INTRODUCTION

This Operating Plan is one of the Office of the Tasmanian Economic Regulator's (OTTER's) major planning tools. It also informs our stakeholders of our activities for the upcoming financial year as can reasonably be foreseen.

The *Economic Regulator Act 2009* (ER Act) came into effect on 1 June 2010 and established the Tasmanian Economic Regulator (Economic Regulator) which currently comprises a three-member board on a part-time basis till 30 June 2015. OTTER's primary objective is to provide high level administrative and regulatory support to the Economic Regulator.

As part of the 2014-15 State Budget, the Government announced that it would be reforming the structure of the Economic Regulator. The Department of Treasury and Finance also took the opportunity to review the scope of the Economic Regulator's roles and responsibilities. The outcome of the reforms were implemented in legislation which has been approved in Parliament. From 1 July 2015, the Economic Regulator will move from a three-member board to a single-person Economic Regulator. A summary of changes, effective 1 July 2015, regarding the functions of the Economic Regulator are as follows:

- The Economic Regulator ceases undertaking Metro pricing investigations but instead will provide an advisory role to the Department of State Growth who will be responsible for prices oversight and providing advice on Metro's pricing, in conjunction with the Department of Treasury and Finance, to the Minister for Infrastructure.
 - Performance reporting on the energy supply and the water and sewerage industries will continue. However, the Economic Regulator is not obliged to report annually; it is now dependent on the request of Government or at the discretion of the Economic Regulator. However, the Economic Regulator must report on the water and sewerage industry in the year prior to the conduct of a water and sewerage price determination investigation. It is expected that both the Energy in Tasmania Performance Report and the Water and Sewerage State of the Industry Report will be released in 2015-16.
 - A report on electricity network reliability will be produced every three years or as directed by Government.
 - The Minister responsible for the Economic Regulator Act, with the agreement of the relevant Portfolio Minister, has the power to direct councils to take actions recommended by the Economic Regulator when the Economic Regulator has upheld a competitive neutrality complaint.
 - The Economic Regulator is not required to publish notices in newspapers relating to its activities.
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- The Economic Regulator has the power to impose financial penalties in cases of material or sustained non-compliance by regulated entities in the electricity and gas industries.

In 2015-16, a high level project will be undertaken to implement the outcomes of the Government's reforms through amendments to the regulatory framework administered by the Economic Regulator including instruments such as codes, licences, guidelines and policies as well as significant changes to the Economic Regulator's website and OTTER's processes and procedures.

As well as continuing its ongoing roles, it is considered that OTTER's major project during 2015-16 will be supporting the Economic Regulator in determining retail standing offer electricity prices for the regulatory period 1 July 2016 to 30 June 2019 in accordance with the *Electricity Supply Industry Act 1995* (ESI Act) and relevant subordinate legislation. The 2013 Interim Price-Regulated Retail Service Price Determination expires on 30 June 2016. The Economic Regulator is required therefore to make a new price determination for the regulatory period from 1 July 2016 to 30 June 2019 in respect of prices which are to commence on 1 July 2016

Another key focus for OTTER during 2015-16 will be supporting the Economic Regulator in determining regulated feed-in tariffs for standard feed-in tariff customers for the regulatory period 1 July 2016 to 30 June 2019 in accordance with the ESI Act and relevant subordinate legislation. The 2013 Regulated Feed-in Tariff Determination expires on 30 June 2016. The Economic Regulator is required therefore to make a new price determination for the regulatory period.

The Economic Regulator became responsible for the regulation of Hydro Tasmania's wholesale contract activities effective from 1 January 2014. In supporting the Economic Regulator fulfil his responsibilities, in 2015-16 (carrying into 2016-17) OTTER will assist the Regulator in the review of the Wholesale Contract Regulatory Instrument and approval of the wholesale financial contracts that Hydro Tasmania will be required to offer for the regulatory period commencing on 1 January 2019. This review is to be conducted well ahead of the schedule expiry date to provide certainty for forward contracting.

The Economic Regulator continues to endorse OTTER's role in promoting stakeholder engagement by targeting communication and liaison with customer, community and government stakeholders. The Economic Regulator also desires OTTER to continue to monitor national regulatory developments and actively engage with national and jurisdictional regulators across the energy and water and sewerage sectors.

OTTER will also continue to review the regulatory frameworks that it administers to ensure that they are operating efficiently and that they align with national regulatory arrangements so to avoid any regulatory overlap or duplication. This will ensure that the cost of regulation, which is ultimately borne by customers, is minimised.

OTTER's output is considerable for an organisation of its size and is testimony to the commitment and engagement of OTTER staff. In the coming year, OTTER will continue to deliver the high quality level of support/service that the Economic Regulator and other stakeholders expect.

Dean Burgess
DIRECTOR

OUR ROLES AND RESPONSIBILITIES

OTTER supports the Economic Regulator in undertaking its statutory functions under the *Economic Regulator Act 2009*, the *Electricity Supply Industry Act 1995*, the *Gas Act 2000*, the *Gas Pipelines Act 2000* and the *Water and Sewerage Industry Act 2008*.

The Regulator's functions under the Economic Regulator Act

The Economic Regulator is established under the ER Act. Its functions under this Act include:

- independent investigations and inquiries into the pricing policies of certain Government-owned bodies, that are monopoly, or near monopoly, providers of services and goods in Tasmania, which include the Motor Accidents Insurance Board;
- recommending maximum prices chargeable by these bodies in respect of the supply of those services and goods;
- provide an advisory role on Metro Tasmania's pricing to the Department of State Growth and the Department of Treasury and Finance when required;
- conducting investigations into complaints of breaches of the national competition policy competitive neutrality principles against State and local government businesses; and
- conducting taxi fare methodology inquiries when requested by the Government.

Regulation of the electricity supply industry

The Economic Regulator also administers the *Electricity Supply Industry Act 1995* (ESI Act), the Tasmanian Electricity Code and other related regulatory instruments. The Economic Regulator has a number of key responsibilities:

- administering the licensing system for electricity supply industry (ESI) entities and monitoring and enforcing their compliance with licence conditions (noting that the requirement for licences in the retail sector on mainland Tasmania is performed by the Australian Energy Regulator under the provisions of the National Energy Customer Framework);
 - issuing and maintaining the Tasmanian Electricity Code;
 - monitoring the wholesale market for electricity in Tasmania;
 - monitoring and regulating technical standards in the electricity supply industry;
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- conducting investigations into the pricing policies of entities that supply declared electrical services;
- regulation of standing offer retail electricity prices to be offered by Aurora Energy, which will apply as a regulated contract option for customers after the planned introduction of full retail competition from 1 July 2014;
- regulation of electricity feed-in tariff prices for eligible small scale renewable generation systems (mostly solar photo voltaic systems); and
- administering the arrangements for the regulation of certain financial contracts offered by Hydro Tasmania to electricity retailers operating in Tasmania.

In undertaking these functions, the Economic Regulator's objectives include:

- the promotion of efficiency and competition in the electricity supply industry;
- the establishment and maintenance of an efficient system of electricity generation, transmission, distribution and supply;
- the establishment and enforcement of proper standards of safety, security, reliability and quality in the electricity supply industry; and
- the protection of the interests of electricity consumers.

Regulation of the gas supply industry

The *Gas Pipelines Act 2000*, *Gas Act 2000* and associated codes establish the procedural and institutional arrangements for what has been a fully contestable gas market since its commencement. Excluding price regulation, the Economic Regulator's functions are similar to its functions in relation to the electricity supply industry with key objectives of:

- facilitating the development of a gas supply industry in Tasmania;
- promoting efficiency and competition in the gas supply industry; and
- protecting the interests of consumers of gas.

The economic regulation of the water and sewerage sector

The Economic Regulator also has responsibilities under the *Water and Sewerage Industry Act 2008* which provides the framework for the economic regulation of the water and sewerage sector, including:

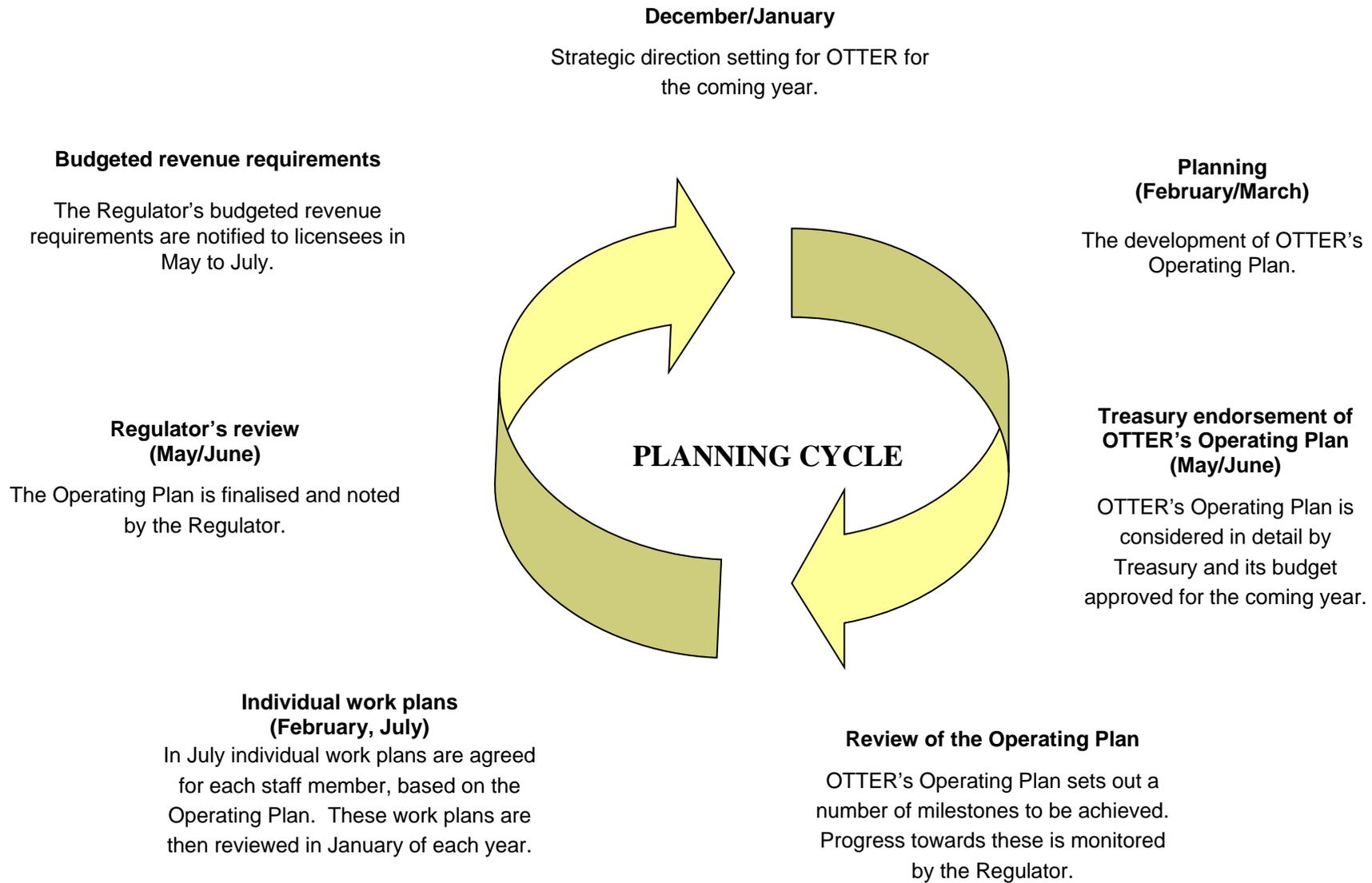
- determining maximum prices for regulated water and sewerage services;
 - promoting efficiency in terms of costs and pricing arrangements;
 - issuing and administering licences for water and sewerage service providers;
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- establishing and administering minimum customer service standards through the Tasmanian Water and Sewerage Customer Service Code; and
 - monitoring the performance of the industry.
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THE PLANNING PROCESS

This Operating Plan (and the planning processes that underpin it) is the means by which OTTER ensures that its activities are focussed on supporting the Economic Regulator to achieve its objectives.

OTTER's planning cycle, illustrated below, provides the framework for developing integrated and focused strategies, objectives and work practices for OTTER staff.



VALUES

OTTER staff are employed by the Department of Treasury and Finance which is a values-based organisation. OTTER staff base their decisions and behaviour on the following values:

- **Integrity** ... as it builds confidence, trust and self respect, and is the foundation of open and honest communication;
 - **Excellence** ... as it challenges us to give our best and brings us recognition;
 - **Respect** ... as it recognises the value of each of us and the contribution we all make;
 - **Passion** ... as it inspires us to achieve great things; and
 - **Camaraderie** ... as it creates a fun and supportive place to be.
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CRITICAL SUCCESS FACTORS

OTTER has identified six factors that are critical to its success - being those characteristics that are essential for OTTER to achieve its objectives. We aim to ensure that:

- Our output is relevant.
 - Our positioning is credible.
 - We apply robust analytical frameworks.
 - We demonstrate process efficiency.
 - Our staff are skilled and understand why they are doing what they do.
 - Our staff are engaged with their roles.
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OUR STAKEHOLDERS

OTTER's key stakeholder is the Economic Regulator.

We also have a very important relationship with the following stakeholders, upon whom our ability to meet our objectives relies:

- relevant ministers and State Government departments across the areas of treasury, transport, energy, infrastructure and water;
 - consumers of the services we investigate or regulate;
 - regulated gas, electricity and water and sewerage entities;
 - Government Business Enterprises, agencies and local government businesses that are monopoly providers of goods and services;
 - Australian and state and territory regulatory bodies; and
 - representatives of industry and consumer bodies.
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STRATEGIC CHALLENGES 2015-16

We have identified a number of key issues and challenges facing OTTER and the Economic Regulator in 2015-16 including:

- implementing the outcomes of the Government's reforms to the regulatory framework administered by the Economic Regulator;
 - conducting a retail electricity standing offer price determination investigation to make a new price determination for the regulatory period from 1 July 2016 to 30 June 2019;
 - conducting a regulated feed-in tariff rate determination investigation to make a new price determination for the regulatory period 1 July 2016 to 30 June 2019;
 - commencing a review of the Wholesale Contract Regulatory Instrument and approve the wholesale financial contracts that Hydro Tasmania will be required to offer for the regulatory period commencing on 1 January 2019;
 - monitoring national regulatory developments and more actively engaging with national and jurisdictional regulators across the energy and water and sewerage sectors;
 - investigating competitive neutrality complaints;
 - building stakeholders' understanding of various regulatory matters, including the pricing of electricity and water and sewerage services; and
 - promoting greater stakeholder engagement, including interaction with national and jurisdictional regulators.
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KEY INITIATIVES AND TASKS IN 2015-16

Our key initiatives and tasks in 2015-16 are focused on assisting the Economic Regulator to achieve its objectives. These tasks and initiatives are listed below together with the timeframes for their completion.

| KEY INITIATIVE OR TASK | TIMEFRAME FOR COMPLETION |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| Potentially prepare and publish a six monthly comparison of standing offer energy prices | August 2015 and February 2016 |
| Prepare and publish an annual report into the comparison between the prices of a prepayment meter system and all other relevant retail electricity prices for small customers in Tasmania | 31 July 2015 |
| Determine electricity licence fees for 2015-16 in accordance with the Economic Regulator's 2014 Structure of Licence Fees (applicable 1 July 2014 to 30 June 2017) | 31 August 2015 |
| Amend the regulatory framework administered by the Economic Regulator as required by the legislated outcomes of the Government's review of the role and structure of the Economic Regulator | 30 September 2015 |
| Prepare and publish TER's annual report for 2014-15 | 31 October 2015 |
| Release Issues Paper for public consultation on Economic Regulator's review of the Wholesale Contract Regulatory Instrument | 6 December 2015 |
| Implement changes to the Economic Regulator's website and OTTER's processes and procedures as a consequence of the legislated outcomes of the Government's review of the role and structure of the Economic Regulator | 31 December 2015 |

| KEY INITIATIVE OR TASK | TIMEFRAME FOR COMPLETION |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|
| Publish draft report and draft determination for the standing offer retail electricity price determination investigation for public comment | 31 January 2016 |
| Publish draft report and draft determination for the electricity regulated feed-in tariff rate determination investigation for public comment | 31 January 2016 |
| Publish a comprehensive report on the performance of the energy supply industry during 2014-15, including a review into network reliability services of the Tasmanian power system | 31 January 2016 |
| Approve the engagement of consultancy services to review and provide advice on the appropriateness of the Wholesale Contract Regulatory Instrument ¹ | 1 March 2016 |
| Review and report on the performance of the water and sewerage sector (State of the Industry Report) | 1 April 2016 |
| Approve Bass Strait Islands electricity tariffs | Mid June 2016 |
| Publish final report and determination of standing offer retail electricity prices for the period 1 July 2016 to 30 June 2019 to apply from 1 July 2016 | 29 April 2016 |
| Publish final report and determination of regulated electricity feed-in tariff rates for the period 1 July 2016 to 30 June 2019 to apply from 1 July 2016 | 29 April 2016 |

¹ Publish draft report on the Review of the Wholesale Contract Regulatory Instrument for public comment - 30 July 2016

Publish final report and make/revoke section 43G (of the ESI Act) approval in respect of the wholesale contracts that Hydro Tasmania must offer to retailers for the regulatory period commencing on 1 January 2019 - 31 October 2016

| KEY INITIATIVE OR TASK | TIMEFRAME FOR COMPLETION |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|
| Approve standing offer retail electricity prices to apply from 1 July 2016 | Mid June 2016 |
| Approve regulated feed-in tariffs to apply from 1 July 2016 | Mid June 2016 |
| Review Tasmanian Water and Sewerage Corporation Pty Ltd's (TasWater) Asset Management Plan | 31 August 2015 |
| Review management plans for TasNetworks Pty Ltd (compliance plan and vegetation management plan), TasWater (third tranche of performance indicators), Hydro Tasmania (asset management plan), Tas Gas Retail (compliance plan) and Aurora Energy Pty Ltd – Gas Retail (compliance plan) | 30 June 2016 |
| Administer the arrangements for the regulation of certain financial contracts offered by Hydro Tasmania to electricity retailers operating in Tasmania | On-going |
| Undertake the role of data and audit co-ordinator for national water performance reporting | On-going |
| Assist in the education of the water and sewerage corporations on regulatory matters | On-going |
| Undertake customer education for the introduction of full retail contestability in the Tasmanian electricity sector from 1 July 2014 | On-going |

STANDARD TASKS 2015-16

The following standard tasks and projects assist the Economic Regulator to achieve its objectives:

- administering the licensing system for the electricity, gas and water and sewerage sectors;
 - issuing, maintaining and enforcing legislation, codes and licence obligations in each industry sector;
 - regulating certain wholesale market contracts;
 - investigating Competitive Neutrality Complaints;
 - establishing, monitoring and publishing standards and codes;
 - developing, maintaining and publishing guidelines;
 - supporting the OTTER Customer Consultative Committee;
 - participating in the national and intra-jurisdictional working groups and committees;
 - reviewing quarterly and annual electricity performance reports and returns;
 - reviewing and verifying water and sewerage performance data as part of OTTER's role of data and audit co-ordinator for national water performance reporting;
 - reviewing outcomes of independent appraisals of management and compliance plans and monitoring the implementation of recommendations;
 - reviewing electricity incident reports and annual planning documents;
 - conducting investigations into complaints of breaches of the national competition policy competitive neutrality principles;
 - determining gas and electricity licence fees and recovery of investigation costs;
 - providing advice to the Government and undertaking inquiries as requested by the Minister;
 - responding to 'right to information' requests;
 - publishing *OTTER News* and providing input to other publications;
 - undertaking website management; and
 - undertaking reception, records management, library management, invoicing, payments and other Office administrative duties.
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ORGANISATIONAL STRUCTURE

