



**Draft structure of licence fees for the electricity, gas  
and water and sewerage sectors**

**Applicable 1 July 2017 to 30 June 2020**

Printed January 2017  
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ISBN xxx-x-xxx-xxxx-x

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# 1 PRINCIPLES

## 1.1 Principles the Regulator is to apply in determining the fee structure

In determining the fee structure in the electricity supply industry, the Regulator is bound by the Tasmanian Electricity Code (TEC). Clause 2.4.1(d) of the TEC requires the Regulator, in its structure of licence fees, to include an assessment of the extent to which the structure complies with the principles set out in clause 2.4.1(b), namely:

- The structure of licence fees should be simple.
- Licence fees should recover the budgeted revenue requirements for the Regulator. The Regulator will prepare a budget before the beginning of each financial year which will identify the Regulator's estimated revenue requirements and will take into account any revenue requirement shortfall or surplus from the previous year, as can reasonably be determined at the time of preparing the budget.
- The components of the licence fees charged to each licensee should be reflective of the extent to which the Regulator's budgeted revenue requirements involve that licensee.
- Licence fees should not unreasonably discriminate against licensees.

The Regulator has applied these principles in determining a structure of licence fees across the electricity, gas and water and sewerage sectors for the period 1 July 2017 to 30 June 2020.

### **The structure of licence fees should be simple**

The structure largely relies on recording 'regulatory effort' applied to each sector and, for the electricity sector, each licensee within the sector. This is given effect through timesheets maintained by Office of the Tasmanian Economic Regulator (OTTER) staff. Overheads are allocated each quarter in proportion to the regulatory effort applied to the sector.

### **Licence fees should cover the budgeted revenue requirements for the Regulator**

Collectively, licence fees cover the budgeted revenue requirements of the Regulator through the application of fixed and variable licence fees. Where the Regulator's actual costs exceed or fall short of the budgeted revenue requirement, the structure provides for adjustments to be made in respect of those sectors or licensees that were the drivers of that outcome.

### **Licence fees charged to each licensee should be cost reflective**

The licence fees to be charged to each licensee will be cost reflective as outlined in the 'simplicity' criterion above.

### **Licence fees should not unreasonably discriminate against licensees**

Licence fees which are levied based on the regulatory effort applicable to the sector and licensees concerned, do not unreasonably discriminate against licensees.

## **2 STRUCTURE OF LICENCE FEES**

### **2.1 Period of application of this fee structure**

This structure of licence fees will apply for three years, from 1 July 2017 to 30 June 2020.

However, the Regulator may review the structure earlier should there be substantial changes to relevant legislation, other material changes in circumstances that would warrant such a review, or at the request of a licensee with a legitimate reason or concern.

### **2.2 Allocation of costs between industry sectors**

The Regulator will allocate its costs to each industry sector on the basis of 'regulatory effort' applied in that industry. That is, the resources that are applied to the regulation of a particular sector will be directly allocated to that sector. The allocation of staff costs is effected through the maintenance of timesheets. Costs which are deemed to be 'common', such as administrative overheads, will be allocated in proportion to the time that staff expend on the sector. For example, if 35 per cent of staff time is allocated to the water and sewerage sector, then 35 per cent of the overheads are applied to that sector.

### **2.3 Electricity supply industry**

The Regulator's budgeted revenue requirement associated with the regulation of the electricity supply industry will be further allocated to generators, the transmission network service providers, retailers (where relevant) and the distributor<sup>1</sup>.

#### **2.3.1 Generators**

The annual licence fee for generators will be based on average megawatt hour (MWh) generated by the licensee over the previous three years as a proportion of total MWh generated for the industry for that same period. For example, if a licensee's generation on mainland Tasmania over the last three years equates to an average of 70 per cent of the total MWh generated for those three years, then that licensee will have a licence fee reflecting 70 per cent of the total estimated regulatory cost for the generation sector (subject to adjustment).

A generator may apply to the Regulator for a reduction in licence fee if there are other relevant factors that should be taken into account. For example, a licence fee may be reduced or waived where generation facilities are used by a company to support its own industrial purposes and, on rare occasions, exports to the grid.

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<sup>1</sup> The introduction of the National Energy Customer Framework (NECF) in Tasmania from 1 July 2012 saw jurisdictional electricity licensing for retailing on Mainland Tasmania being replaced by a national authorisation scheme. Accordingly, and from that time, electricity retailers selling on mainland Tasmania are no longer issued a retail licence by the Regulator nor charged licence fees.

### 2.3.2 Other licensees

The Regulator has determined the application of licence fee amounts reflective of costs in regulating the electricity distribution, transmission and retail sectors, as follows:

- For distribution, the licensee (TasNetworks Pty Ltd) will meet the Regulator's budgeted expenditure on the distribution sector, subject to any adjustment as set out in section 2.5.3.
- For Transmission licensees (TasNetworks Pty Ltd and Basslink Pty Ltd), the licensees will pay a variable licence fee equivalent to regulatory effort applied to each licensee, subject to any adjustment as set out in section 2.5.3.
- Hydro Tasmania for its generation, distribution and retail operations on the Bass Strait Islands (i.e. King Island and Flinders Island), will pay a licence fee equivalent to the Regulator's costs associated with Bass Strait Islands regulatory activities, subject to any adjustment as set out in section 2.5.3.

## 2.4 Water and Sewerage Industry

The Regulator's budgeted revenue requirement associated with regulation of the water and sewerage sector will be allocated in accordance with section 2.2. That is, based on the Regulator's resources applied directly to the sector plus a proportion of the Regulator's overheads.

However, the Regulator's budgeted revenue requirement forms only one input into the setting of the licence fees that are payable by regulated water and sewerage entities. Therefore, the Regulator's budgeted revenue requirement will be notified to the Department of Primary Industries, Parks, Water and Environment (DPIPWE) prior to the commencement of the financial year. The Minister for Primary Industries and Water will then determine the licence fees payable by the licensees.

As the Regulator does not set the licence fee itself, but rather advises the Minister as to its funding requirements, the budgeted revenue requirement will not be allocated to individual regulated water and sewerage entities. This allocation will be undertaken by the Minister on the advice of DPIPWE.

The Regulator's budgeted revenue requirement in this sector may be adjusted in accordance with section 2.5.3.

## 2.5 Gas Industry

### 2.5.1 Annual licence fees

The Regulator's budgeted revenue requirement associated with regulation of the gas supply industry will be allocated in accordance with section 2.2.

The Regulator has determined that the payment of a variable licence fee based on regulatory effort by each gas pipeline operator, distributor and retailer is appropriate to cover 'regulatory effort' applied to the gas supply industry including a share of the Regulator's overheads. The licence fees will represent the forecast costs of the Regulator in administering the *Gas Pipelines Act 2000* and *Gas Act 2000* (Gas Acts). This is consistent with the licence fee methodology applied in the electricity sector and is in line with the principle of licence fees being cost reflective.

With respect to LPG licence fees, the Regulator has determined that small LPG gas distributors and small LPG gas retailers pay a nominal annual fee of \$50.

The licence fees will be subject to any adjustment as per section 2.5.3.

In the unlikely event that a new, small natural gas distribution network is established, the Regulator will determine an appropriate fee.

Where a licensee has both construction and operations licences then only one annual fee is charged.

The Regulator is able to recover the costs of the Director of Gas Safety through licence fees and then remit those amounts to the Director of Gas Safety. Note that the proposed licence fees only relate to the Regulator's costs of administration of the Gas Acts. The licence fee will be increased as necessary to recover the costs of the Director of Gas Safety in administering the Gas Acts.

Whilst the licence fee for gas entities may include a component to recover the costs of the Director of Gas Safety, the licence fee estimate as provided by the Regulator to gas licensees in February, as outlined in section 2.6, will only reflect the Regulator's own costs.

### **2.5.2 Part year fees for new entrants**

Licence fees for new entry entities in the electricity supply industry, gas industry, and water and sewerage industry will be determined by the Regulator on a case-by-case basis.

### **2.5.3 Adjustments**

An adjustment to licence fees will be made where:

1. the Regulator's actual costs have exceeded or fallen short of that budgeted; and/or
2. the apportionment of fees to specific sectors of those industries differs materially, in the Regulator's opinion, from the actual allocation of resources during the year (such an adjustment would be warranted where the Regulator's resources are directed to significant activities which were not envisaged at the time that the licence fees were determined); and/or
3. for the gas sector, where applicable, the Director of Gas Safety seeks to recover its costs of administering the Gas Acts.

Adjustments in respect of points 1 and 2 above are made in the year following that for which the fees were paid.

## **2.6 Preparation and notification of licence fees payable**

Licence holders will be notified by the Regulator early in the calendar year of a licence fee estimate for that licensee for the forthcoming financial year. That is, the Regulator will advise licensees of their estimated licence fee by (approximately) the end of February. The final licence fees for the forthcoming year, the calculation of which will include the actual expenditures of the Regulator for the previous financial year, will then be prepared and distributed to licenced entities after 1 July.

## 2.7 Exemptions from the payment of licence fees

### 2.7.1 Electricity supply industry

The *Electricity Supply Industry Regulations 2008* exempt certain generators from the requirement to be licensed. Hence, there is no requirement for licence fees to be paid by exempt generators. Regulation 4(1) provides the following:

- (1) A licence authorising the generation of electricity is not required if –
  - (a) the electricity is generated by a generator with a capacity of 5 megawatts or less; or
  - (b) the electricity is –
    - (i) generated by a generator that is not normally connected to a power system or has a primary function other than the generation of electricity for sale; and
    - (ii) not sold.

The regulation of these generators is principally through their connection agreements with TasNetworks Pty Ltd; hence their operation is unlikely to require any regulatory involvement.

### 2.7.2 Water and sewerage industry

Under the *Water and Sewerage Industry Act 2008* (WSI Act) there is provision for the Minister to exempt persons from any provision of that Act. The Minister, by way of the *Water and Sewerage Industry Exemption Order 2011*, has exempted all but TasWater (operational since 1 July 2013) from the requirement to be licensed. Accordingly, only this entity is currently required to pay licence fees. If this situation changes, then the Regulator may impose licence fees on additional entities that are required to be licensed under the WSI Act.

### 2.7.3 Gas industry

The wording of the Gas Act and Gas Pipelines Act presumes that all gas entities licensed under these Acts will pay an annual licence fee that is a reasonable contribution towards the costs of the administration of the Acts, taking into account the nature and scale of the operations. Note that the Governor may, by Order issued under the Gas Act, exempt a person or class of persons from the requirement to have a licence.