



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

**Applicable 1 July 2014 to 30 June 2017**

Printed March 2014

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ISBN 978-0-7246-5279-2

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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 Economic Regulator (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 Regulators' 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 for the Regulator 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 2014 to 30 June 2017.

### **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. An exception is made to this approach where regulatory effort with respect to a licensee does not vary materially from year to year. In this case, the licensee makes a contribution to the fixed costs of OTTER through a fixed annual fee that the Regulator considers reasonable when taking into account the Regulator's tasks and projects associated with that licensee.

The Regulator considers that the structure of licence fees meets the criterion of simplicity.

### **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.

The Regulator considers that the structure of licence fees meets this criterion.

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

Refer to the 'simplicity' criterion above. The Regulator considers that the licence fees to be charged to each licensee will be cost reflective.

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

Again, refer to the 'simplicity' criterion above. The Regulator considers that licence fees 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 2014 to 30 June 2017.

However, the Regulator may review the structure earlier should there be substantial changes to relevant legislation or other material changes in circumstances that would warrant such a review.

### **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, allocated in accordance with section 2.2 above, will be further allocated to generators, the transmission network service providers (TasNetworks<sup>1</sup> and Basslink Pty Ltd) and the distributor (TasNetworks). In this way, regulatory effort is considered an appropriate method of allocation where there is regular and direct interaction of licensees with OTTER.

However, in respect of some licensees, such as TasNetworks (transmission operations), Basslink Pty Ltd and Hydro Tasmania (in relation to their operations on the Bass Strait Islands), the interaction is limited. Despite this, there are identified activities, which encompass monitoring and reporting on these entities' performance, for which the Regulator incurs costs. As such, it is considered necessary for the Regulator to apply a fixed fee to these entities to reasonably cover these costs.

The fixed fee will include a share of the Regulator's overheads.

The balance of the Regulator's costs (that is, net of the aforementioned fixed fees) will be recovered from generators and the distributor.

See section 2.3.2 for the fixed fee amounts to be applied.

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<sup>1</sup> TasNetworks will commence operations on 1 July 2014 and represents the merging of the current licensees Aurora distribution and Transend Networks. For the purposes of licensing arrangements, two separate licences will be held by TasNetworks' operations and two separate distribution and transmission licence fee amounts will be payable.

### 2.3.1 Generators

The annual licence fee for generators will comprise:

- a fixed component, being a contribution to the Regulator's budgeted revenue requirement that is common to all generators (that is, they do not change with the number of generators); and
- a variable component, where the balance of expenditure on the generation sector is apportioned on the basis of megawatt hour (MWh) metered in the period 1 May to 30 April in the previous year and notified to the Regulator by 31 May.

The fixed component of the licence fee payable by a generator with installed capacity greater than or equal to 5 MW and less than 30 MW will be \$5 000.

The fixed component payable by a generator with installed capacity greater than or equal to 30 MW will be \$10 000.

For a generator which is not yet operating, only the fixed component will be payable.

Example:

In the context of five licensed generators all with a capacity of greater than 30MW, and Regulator's costs allocated to the generation sector of \$160 000, a generator that sells 70 per cent of total electricity generated will pay a fixed fee of \$10 000 and a variable fee of:

$$70\% \times (\$160\,000 - (5 \times \$10\,000)) = \$77\,000$$

giving a total licence fee of \$87 000.

This approach recognises the intermittent output of some generators. Although a large generator may be dispatched intermittently with a small annual output, its output when dispatched may be significant.

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.

### 2.3.2 Other licensees

For the term of this structure of licence fees, the Regulator considers that the remaining licensees are likely to be confined to:

- TasNetworks (distribution), where the Regulator has determined that the licensee will meet the Regulator's budgeted expenditure on the distribution sector, subject to any adjustment as set out in section 2.5.3.
- TasNetworks (transmission), where the Regulator has determined that the licensee will pay a fixed licence fee of \$50 000, subject to any adjustment as set out in section 2.5.3.
- Basslink Pty Ltd, where the Regulator has determined that the licensee will pay a fixed licence fee of \$25 000, 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), where the Regulator has

determined that the licensee will pay a licence fee of \$10 000, 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.

As there is light handed regulatory framework that applies to the gas supply industry in Tasmania, the Regulator's revenue requirement in respect of the gas industry varies little. Given this, the Regulator has determined that the payment of a fixed fee by each gas licensee is appropriate to cover 'regulatory effort' applied to the gas supply industry including a share of the Regulator's overheads.

Thus, gas licence fees will be maintained at the following levels, being a reasonable contribution to the Regulator's costs in administering the *Gas Pipelines Act 2000* and *Gas Act 2000* (Gas Acts):

- a natural gas transmission network, a fixed annual fee of \$10 000, subject to any adjustment as per section 2.5.3;
- a natural gas distribution network, a fixed annual fee of \$30 000, subject to any adjustment as per section 2.5.3;
- a natural gas retailer, a fixed annual fee of \$10 000, subject to any adjustment as per section 2.5.3;
- gas pipeline (facility), a fixed annual fee of \$5 000 subject to any adjustment as per section 2.5.3;

- a small LPG gas distributor, a fixed annual fee of \$50, subject to any adjustment as per section 2.5.3; and
- a small LPG gas retailer, a fixed annual fee of \$50, 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.

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

New entry generators in the electricity supply industry will pay the fixed component of their annual licence fees on a pro-rata basis for the remaining part of the year. The variable component of the licence fee will be calculated in accordance with section 2.3.1.

Similarly, new entry retailers in the gas industry will pay a pro-rata proportion of the fixed licence fee for the year.

No new entrants into the water and sewerage industry are expected to be licensed during the period of operation of this structure. However, should this occur, then it is considered reasonable that the Regulator apply a pro-rata proportion of the full year licence fee.

### **2.5.3 Adjustments**

The TEC provides for licence fees to include 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 structure of licence Fees was determined); and/or
3. the gas sector, 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 Exemptions from the payment of licence fees**

### **2.6.1 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; hence their operation is unlikely to require any regulatory involvement.

### **2.6.2 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 the newly formed 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.

### **2.6.3 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.