



Operating Plan 2013-14

of the

Office of the Tasmanian Economic Regulator

June 2013

INTRODUCTION

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

The *Economic Regulator Act 2009* (ER Act) came into effect on 1 June 2010 and established the three-member Tasmanian Economic Regulator. OTTER's objective is to provide high level administrative and regulatory support to the Regulator.

A key focus of the Office during 2013-14 will be the implementation of the new regulatory arrangements arising from the Government's electricity reform process.

The *Electricity Reform (Implementation) Act 2013* received Royal Assent on 13 May 2013 and commenced on 1 June 2013. The Implementation Act includes a number of changes to the *Electricity Supply Industry Act 1995* (ESI Act) to facilitate the implementation of the Government's electricity reforms program. The associated *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013* also commenced on 1 June 2013.

The Government's electricity reform program is designed to introduce full retail competition in the Tasmanian electricity market from 1 January 2014. To support this objective, Aurora Energy's customers will be divested to at least two purchasing retailers through a sale process that will be conducted in the latter half of 2013.

The Regulator will be required to make interim price determinations for the standard retail (standing offer) contracts that each of the acquiring retailers will be required to offer to those customers not entering into a market contract. Under the Regulations, the Regulator is required to make the interim standing offer determinations by 31 July 2013.

To support the introduction of full retail competition the Regulator will also be required to regulate Hydro Tasmania's wholesale contracting activities. This is an area where OTTER has only limited past experience and a concerted effort will be required to ensure that the Office builds the necessary skills and knowledge to effectively undertake this role.

A wholesale pricing instrument will obligate Hydro Tasmania to offer regulated contract products in line with a series of rules that will determine the prices for those regulated contracts. It is expected that Hydro Tasmania will not be required to offer the regulated contract products to the market until 1 January 2014 when full retail competition commences. In the interim, the Regulator is required to issue a guideline detailing the process, timing and approval arrangements for setting regulated contract prices as well as the associated compliance monitoring and enforcement arrangements.

The Regulator will commence compliance monitoring during 2013-14 and has extensive investigative powers if it is satisfied that the regulated contractual products are being priced incorrectly or if a retailer operating in Tasmania complains about Hydro Tasmania's actions in relation to the regulated products.

On 16 May 2013 the Government released an issues paper in relation to the feed-in tariffs paid to customers exporting electricity to the grid (predominately from roof-top solar installations). As part of the proposed arrangements, it is expected that during the second half of 2013 the Regulator will be required to undertake an inquiry to recommend a feed-in tariff to apply from 1 January 2014.

OTTER is also likely to have a role in customer education associated with the introduction of full retail competition from 1 January 2014.

The amalgamation of the three water and sewerage corporations from 1 July 2013 will require OTTER to manage some transitional regulatory arrangements during 2013-14. However, the legislation that implemented the amalgamation also maintained the current three regional price determinations until the end of the first regulatory period. Therefore, OTTER will continue to monitor and enforce compliance obligations under those determinations.

The current water and sewerage price determinations end on 30 June 2015 and the Regulator is required to conduct a price determination investigation prior to making the second price determination. The *Water and Sewerage Industry Act 2008* (Industry Act) and the *Water and Sewerage Industry (Pricing and Related Matters) Regulations 2011* specify a number of tasks that must be completed prior to the Regulator commencing its investigation. The Regulator also has a number of other key tasks that need to be completed before 30 June 2014 in readiness for the conduct of the investigation during 2014-15.

The Regulator is required, under Part 3 of the ER Act, to conduct an investigation and recommend to the Government the maximum prices certain monopoly service providers are able to charge. Metro Tasmania Pty Ltd is listed in Schedule 1 of the ER Act as a monopoly service provider. The current Metro Pricing Order expires on 28 September 2014. The investigation for the next regulatory period is expected to be completed during 2013-14 so that Metro can modify its systems and processes (if necessary), communicate with key stakeholders and customers and implement the new prices from 29 September 2014.

The Government's review of the Tasmanian gas regulatory framework is expected to require input and involvement by OTTER. The longer term outcomes arising from that review are currently unknown and may range from only minor changes in OTTER's roles and responsibilities to more significant changes.

The Regulator continues to endorse a need for OTTER to take a greater role in promoting stakeholder engagement. This will involve better targeting communication and liaison with customer, community and government stakeholders. The Regulator also desires OTTER to increase its role in monitoring national

regulatory developments and more actively engage with national and jurisdictional regulators across the energy and water and sewerage sectors.

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 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:

- investigations and inquiries into the pricing policies of certain Government bodies that are monopoly, or near monopoly, providers of services and goods in Tasmania;
- recommending maximum prices chargeable by these bodies in respect of the supply of those services and goods; and
- conducting investigations into complaints of breaches of the national competition policy competitive neutrality principles.

Regulation of the electricity supply industry

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

- administering the licensing system for electricity supply industry entities and monitoring and enforcing their compliance with licence conditions (noting that the requirement for licences in the retail sector on mainland Tasmania was removed from 1 July 2012 with the introduction 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; and
 - conducting investigations into the pricing policies of entities that supply declared electrical services.
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In undertaking these functions, the 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 economic regulation, the 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.

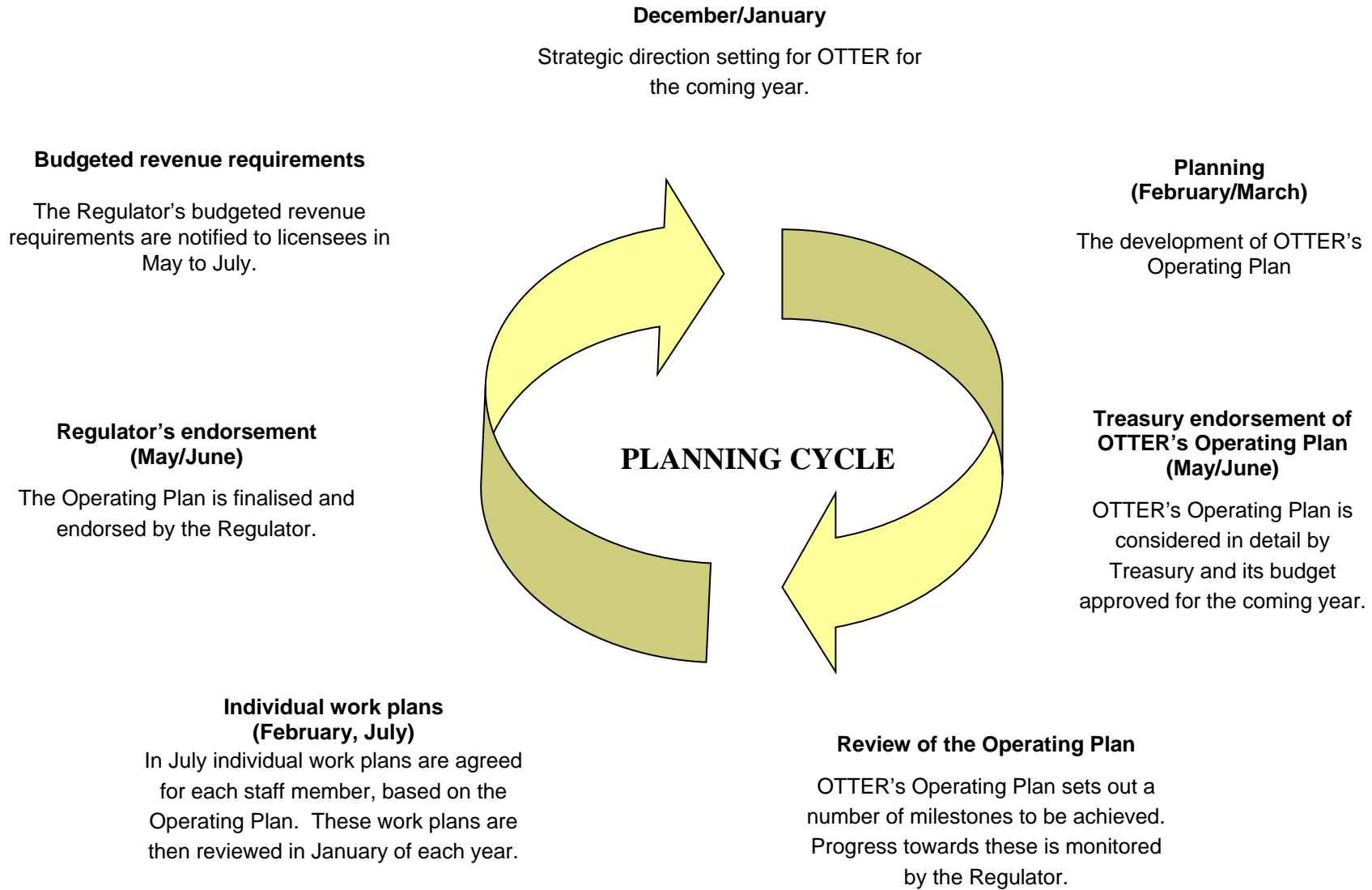
The economic regulation of the water and sewerage sector

The Regulator also has responsibilities under the Industry Act which provides the framework for the economic regulation of the water and sewerage sector, including the administration of a licensing regime and providing for the regulation of prices, customer service standards and performance monitoring of the sector.

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 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 Tasmanian Economic Regulator.

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

- the Treasurer, the Minister for Finance, the Minister for Sustainable Transport, the Minister for Energy and Resources, the Minister for Primary Industries Parks Water and Environment, the Minister for Infrastructure and the Transport Commission;
 - consumers of the services we investigate or regulate;
 - licensed 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 2013-14

Through our planning process we have identified a number of key issues and challenges facing OTTER and the Regulator in 2013-14 including:

- implementing the regulatory reforms arising from the Tasmanian Government's electricity reform program;
 - managing regulatory impacts arising out of the amalgamation of the water and sewerage corporations from 1 July 2013;
 - preparing for the commencement of the second water and sewerage price investigation;
 - taking on an expanded role in monitoring national regulatory developments and more actively engaging with national and jurisdictional regulators across the energy and water and sewerage sectors;
 - administering any regulatory reforms arising from a proposed policy review of the gas regulatory framework;
 - 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 greater interaction with national and jurisdictional regulators.
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KEY INITIATIVES AND TASKS IN 2013-14

Our key initiatives and tasks in 2013-14 are focused on assisting the 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
Publish the Regulator's Final Report for the investigation into the MAIB's pricing policies and provide recommendations to Government	31 July 2013
Prepare and publish a six-monthly comparison of standing offer energy prices including "pay as you go" rates	31 July 2013 and 28 February 2014
Publish determination of standing offer retail electricity tariffs to apply from 1 January 2014	31 July 2013
Determine electricity licence fees for 2013-14 in accordance with the Regulator's 2011 Structure of Licence Fees	31 August 2013
Prepare and publish a draft of the new Water and Sewerage Price and Service Plan Guideline for public consultation	August 2013
Approve TasWater's customer charter	September 2013
Prepare and publish a final version of the new Water and Sewerage Price and Service Plan Guideline	September 2013
Prepare and publish the Regulator's annual report for 2012-13	31 October 2013

KEY INITIATIVE OR TASK	TIMEFRAME FOR COMPLETION
Prepare and publish a Wholesale Market Contracting Guideline outlining the administration, price approval and compliance monitoring and enforcement arrangements associated with the framework for the regulation of electricity wholesale market contracting	November 2013
Complete inquiry into electricity feed-in tariff to apply from 1 January 2014	November 2013
Commence monitoring Hydro Tasmania's compliance with the framework for the regulation of electricity wholesale market contracting	1 January 2014
Undertake customer education for the introduction of full retail competition in the Tasmanian electricity sector	1 January 2014
Publish a comprehensive report on the energy supply industry's performance during 2012-13, including the reliability of the Tasmanian power system	31 January 2014
Release a draft investigation report on Metro Tasmania Pty Ltd's pricing policies for public consultation	February 2014
Review and publish the Structure of Licence Fees for electricity, gas and water and sewerage sectors for the period 1 July 2014 to 30 June 2017	March 2014
Publish a notice of intention to commence a water and sewerage price determination investigation	April 2014
Review and report on the water and sewerage sector's performance during 2012-13	30 April 2014
Complete the investigation of Metro Tasmania Pty Ltd's pricing policies and provide recommendations to Government	31 May 2014

KEY INITIATIVE OR TASK	TIMEFRAME FOR COMPLETION
Review management plans for Aurora Energy (Tamar Valley) Pty Ltd, Hydro Tasmania, Basslink Pty Ltd, Aurora Energy (Distribution), Aurora Energy Pty Ltd (Gas Retail), Tas Gas Retail and Tas Gas Pipeline Pty Ltd.	30 June 2014

STANDARD TASKS 2013-14

The following standard tasks and projects assist the 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;
 - 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

