



Operating Plan 2014-15

of the

Office of the Tasmanian Economic Regulator

May 2014

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 which comprises a three-member board. OTTER's primary objective is to provide high level administrative and regulatory support to the Regulator.

As well as continuing its ongoing roles, it is considered that OTTER's major project during 2014-15 will be supporting the Regulator in undertaking the second water and sewerage price determination investigation. 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 in accordance with the *Water and Sewerage Industry Act 2008* (Industry Act) and the *Water and Sewerage Industry (Pricing and Related Matters) Regulations 2011*.

Another key focus for OTTER during 2014-15 will be supporting the Regulator in administering the new regulatory arrangements arising from the recent electricity reform process. The *Electricity Reform (Implementation) Act 2013* commenced on 1 June 2013 and provided for a number of changes to the *Electricity Supply Industry Act 1995* (ESI Act) to facilitate the implementation of a number of electricity reforms. The associated *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013* also commenced on 1 June 2013. The electricity reform program is designed to introduce full retail competition in the Tasmanian electricity market from 1 July 2014.

As a result of these electricity reforms, OTTER is likely to have an increased role in customer education associated with the introduction of full retail contestability, as well as continuing to regulate retail standing offer prices and wholesale market financial contracting arrangements.

The Regulator continues to endorse OTTER taking 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 continue to increase its role in monitoring national regulatory developments and more actively engaging 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 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 Metro Tasmania and the Motor Accidents Insurance Board;
- recommending maximum prices chargeable by these bodies in respect of the supply of those services and goods;
- 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 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 (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;
 - conducting investigations into the pricing policies of entities that supply declared electrical services;
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- 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 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 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

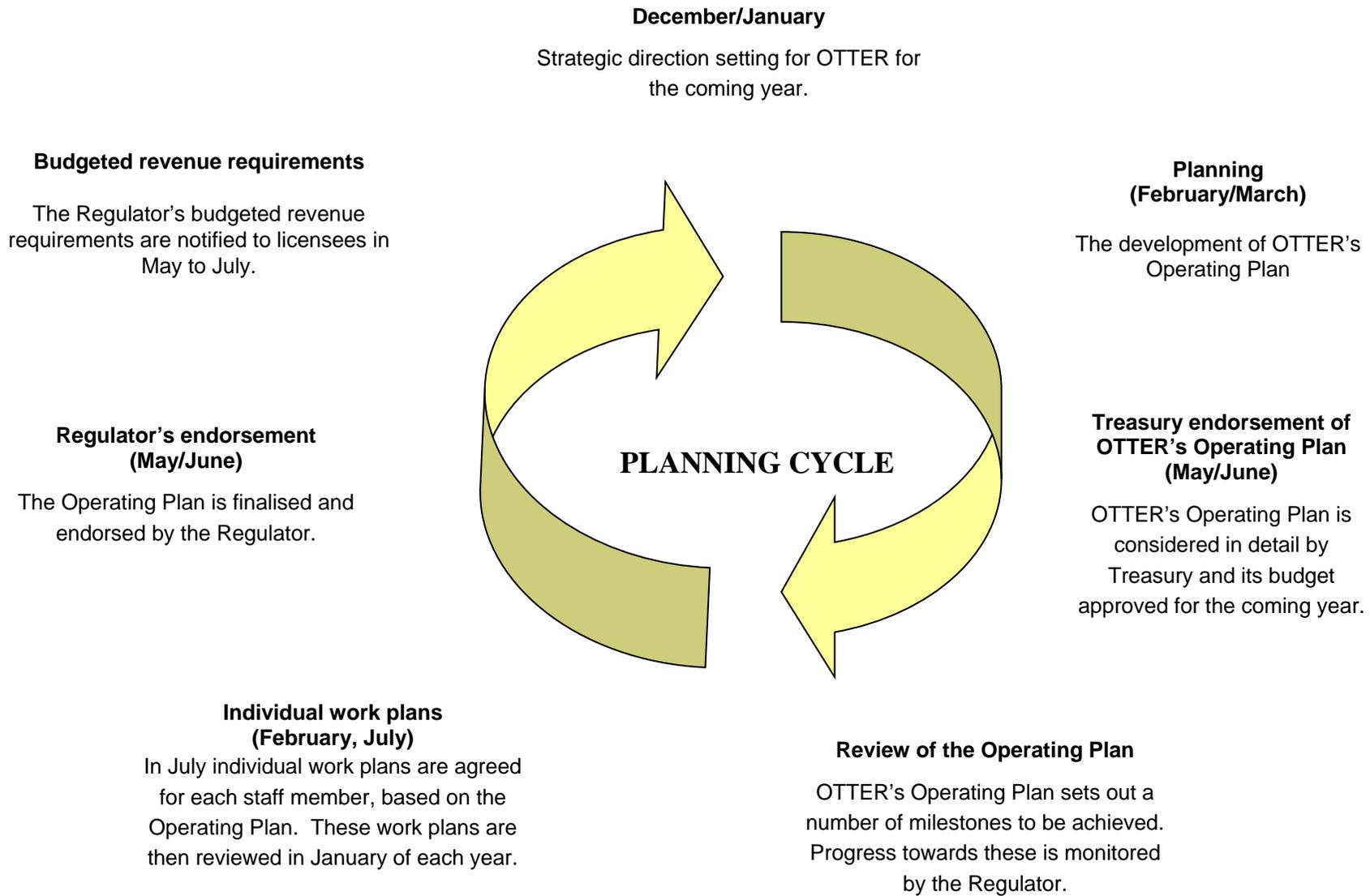
The Regulator also has responsibilities under the *Water and Sewerage Industry Act 2008* which provides the framework for the economic regulation of the water and sewerage sector, including:

- 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;
 - 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 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:

- 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 2014-15

Through our planning process we have identified a number of key issues and challenges facing OTTER and the Regulator in 2014-15 including:

- administering regulatory reforms arising from the recent electricity reforms including:
 - regulation of standing offer retail electricity prices;
 - administering the arrangements for the regulation of certain financial contracts offered by Hydro Tasmania to electricity retailers operating in Tasmania;
 - regulation of electricity feed-in tariff prices for eligible small scale renewable generation systems (mostly solar photo voltaic systems);
 - providing a customer education role in relation to the planned introduction of electricity retail competition from 1 July 2014;
 - conducting a water and sewerage price determination investigation to make a new price determination for the second regulatory period from 1 July 2015 to 30 June 2018;
 - 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 greater interaction with national and jurisdictional regulators.
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KEY INITIATIVES AND TASKS IN 2014-15

Our key initiatives and tasks in 2014-15 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 |
|--|-------------------------------|
| Approve the engagement of consultancy services to review and provide advice on the appropriateness of TasWater's proposed operating and capital expenditure (to be outlined in TasWater's proposed Price and Service Plan 2015-18) | 31 July 2014 |
| Prepare and publish a six monthly comparison of standing offer energy prices | August 2014 and February 2015 |
| Prepare and publish a comparison of APAYG rates and regulated electricity tariffs | 31 July 2014 |
| Determine electricity licence fees for 2014-15 in accordance with the Regulator's 2014 Structure of Licence Fees | 31 August 2014 |
| Prepare and publish TER's annual report for 2013-14 | 31 October 2014 |
| Publish draft report and draft determination for the water and sewerage price determination investigation for public comment | 5 January 2015 |
| Publish a comprehensive report on the performance of the energy supply industry during 2013-14, including the reliability of the Tasmanian power system | 31 January 2015 |
| Review and report on the performance of the water and sewerage sector (State of the Industry Report) | 1 April 2015 |
| Approve Bass Strait Islands electricity tariffs | 30 April 2015 |

| KEY INITIATIVE OR TASK | TIMEFRAME FOR COMPLETION |
|--|---------------------------------|
| Publish final report and determination of water and sewerage prices for the period 1 July 2015 to 30 June 2018 to apply from 1 July 2015 | 30 April 2015 |
| Approve TasWater's 2015-2018 Price & Service Plan | 29 May 2015 |
| Approve standing offer retail electricity prices to apply from 1 July 2015 | Mid June 2015 |
| Approve feed-in tariffs to apply from 1 July 2015 for eligible small scale renewable generation systems (mostly solar photo voltaic systems) | Mid June 2015 |
| Review management plans for Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater), TasNetworks Pty Ltd and Basslink Pty Ltd | 30 June 2015 |
| 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 2014-15

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;
 - wholesale market contract regulation;
 - 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

