



# **Operating Plan 2016-17**

**of the**

**Office of the Tasmanian Economic Regulator**

**JUNE 2016**



# 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 was amended, following the enactment of the *Economic Regulator Amendment (ERA) Act 2015*, restructuring the Tasmanian Economic Regulator (Economic Regulator) from a three-person panel to a single person with the capacity to appoint an Assistant Regulator for specific functions, if required. The amended ER Act also provides for the appointment of an Acting Regulator, to act as the Regulator, during any period that the Regulator is absent. The amendments arose from the Government's review of the role and structure of the Tasmanian Economic Regulator.

OTTER's primary objective is to provide high level administrative and regulatory support to the Economic Regulator in undertaking his statutory functions under the ER Act, *Electricity Supply Industry Act 1995* (ESI Act), *Gas Act 2000* (Gas Act), *Gas Pipelines Act 2000* (Gas Pipelines Act) and *Water and Sewerage Industry Act 2008* (W&SI Act). The ERA Act also provided for amendments to this legislation as well as the *Urban Drainage Act 2013*, the *Metro Tasmania Act 1997* and related subordinate legislation.

In 2016-17, 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. The Motor Accidents Insurance Board (MAIB) is listed in Schedule 1 of the ER Act as a monopoly service provider. The current MAIB Premium Order expires on 30 November 2017. OTTER will assist the Economic Regulator in undertaking the investigation for the next regulatory period which is expected to be completed during 2016-17, well before 30 November 2017, so that MAIB can modify its systems and processes (if necessary), communicate with key stakeholders and customers and implement the new premiums from 1 December 2017.

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 2016-17 (carrying-on from 2015-16) 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,

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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**

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## 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 and monitoring the performance of the electricity supply industry 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
- promoting efficiency and competition in the electricity supply industry including monitoring and reporting on the development of competition;
- 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;
- monitoring the performance of 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;
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- 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 development of the Tasmanian Water and Sewerage Customer Service Code;
  - monitoring and enforcing compliance of water and sewerage entities with licence conditions; and
  - monitoring the performance of the industry.
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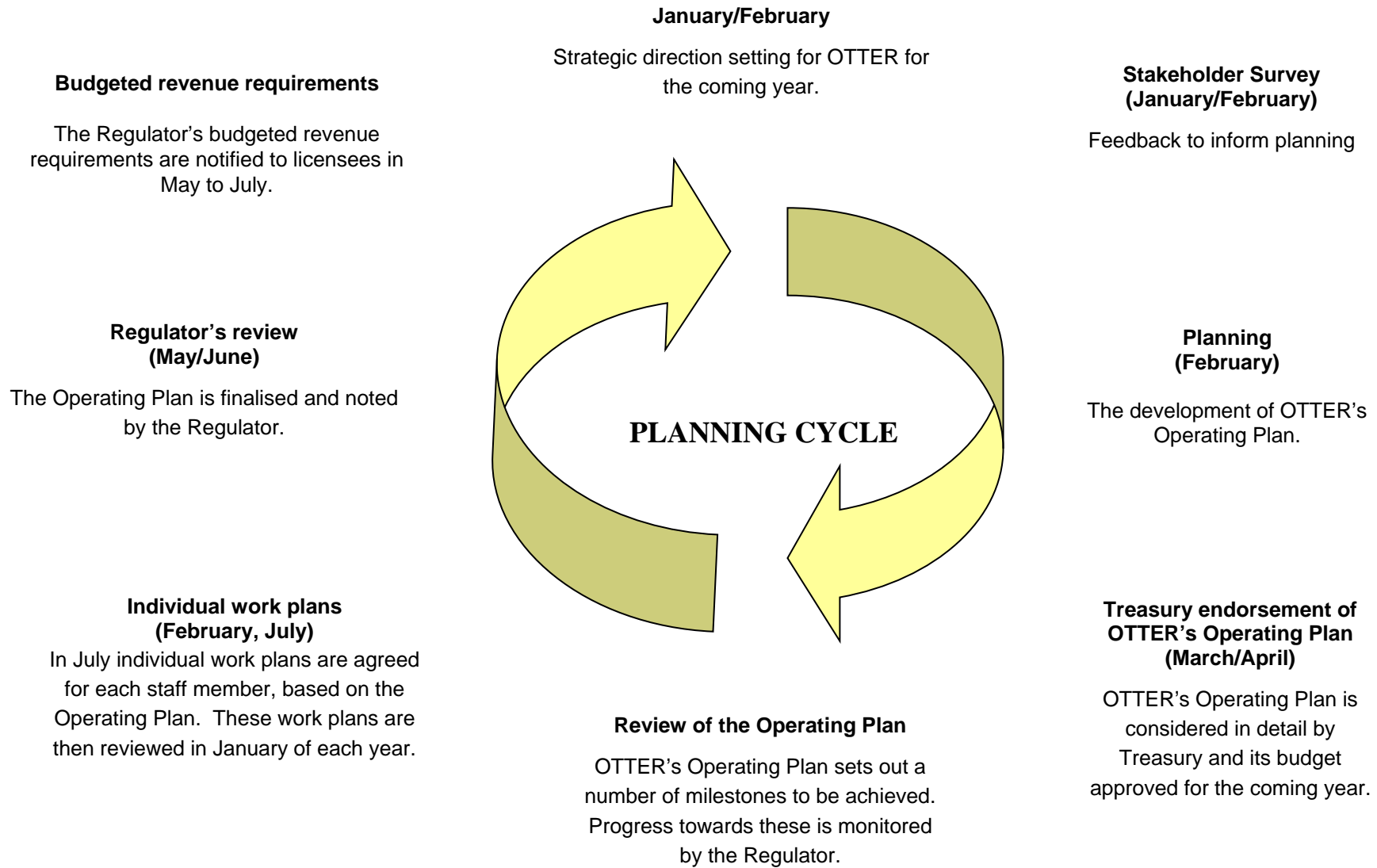




## THE PLANNING PROCESS

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 2016-17

We have identified a number of key issues and challenges facing OTTER and the Economic Regulator in 2016-17 including:

- undertaking 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;
  - conducting an investigation into MAIB's pricing policies and recommending to Government maximum premiums from 1 December 2017 to 30 November 2021;
  - responding to any queries or regulatory changes arising from the Parliamentary Standing Committee of Public Accounts Inquiry into the financial position and performance of Government owned energy entities and the Government's Tasmanian Energy Security Taskforce;
  - monitoring national regulatory developments and more actively engaging with national and jurisdictional regulators across the energy and water and sewerage sectors;
  - assessing electricity licence applications within a changing market structure;
  - assisting with the development of a new customer service standard framework to apply in the Tasmanian water and sewerage sector from 1 July 2018;
  - 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.
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## KEY INITIATIVES AND TASKS IN 2016-17

Our key initiatives and tasks in 2016-17 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
Prepare and publish a six monthly comparison of standing offer energy prices	August 2016 and February 2017
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 2016
Determine electricity licence fees for 2016-17 in accordance with the Economic Regulator's 2014 Structure of Licence Fees (applicable 1 July 2014 to 30 June 2017)	31 August 2016
Publish draft report on the Review of the Wholesale Contract Regulatory Instrument for public comment	31 August 2016
Release of a new Power to Choose website	6 September 2016
Prepare and publish TER's annual report for 2015-16	31 October 2016
Publish final report on the Review of the Wholesale Contract Regulatory Instrument	30 November 2016
Release of a new OTTER website	20 December 2016
Publish a comprehensive report on the performance of the energy supply industry during 2015-16, including a review into network reliability services of the Tasmanian power system	31 January 2017

<b>KEY INITIATIVE OR TASK</b>	<b>TIMEFRAME FOR COMPLETION</b>
Review and publish the Structure of Licence Fees for electricity, gas and water and sewerage sectors for the period 1 July 2017 to 30 June 2020	March 2017
Review and report on the performance of the water and sewerage sector (State of the Industry Report)	1 April 2017
Approve Bass Strait Islands electricity tariffs	Mid June 2017
Release a draft investigation report on the Motor Accident Insurance Board's pricing policies for public consultation	31 May 2017
Approve standing offer retail electricity prices to apply from 1 July 2017	Mid June 2017
Approve regulated feed-in tariffs to apply from 1 July 2017	Mid June 2017
Review management plans for TasNetworks Pty Ltd (asset management plan, compliance plan and vegetation management plan), TasWater (first tranche of performance indicators), Tas Gas Retail (compliance plan) and Aurora Energy Pty Ltd – Gas Retail (compliance plan), Hydro Tasmania (Bass Strait Islands operations, emergency management plan – generation, distribution and retail licences, mainland Tasmanian generation licence – emergency management plan), Origin Energy Retail (compliance plan), BOC Limited (compliance plan) and Aurora Energy (Tamar Valley) Pty Ltd (emergency management plan)	30 June 2017

<b>KEY INITIATIVE OR TASK</b>	<b>TIMEFRAME FOR COMPLETION</b>
Publish the final investigation report on the Motor Accident Insurance Board's pricing policies and provide recommendations to Government	5 July 2017
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

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## STANDARD TASKS 2016-17

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 and monitoring the wholesale market;
  - 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;
  - responding to queries and complaints on electricity, gas and water and sewerage pricing matters;
  - determining gas, electricity and water and sewerage licence fees and recovery of investigation costs;
  - providing advice to the Government and undertaking inquiries as requested by the Minister;
  - publishing weekly electricity market bulletins summarising outcomes of the National Electricity Market in relation to the Tasmanian region, as well as other factors affecting the electricity system in Tasmania;
  - 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

