



PROJECTS ON THE GO

Activities of OTTER

prepared for the

OTTER Customer Consultative Committee

MAY 2017

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Office of the Tasmanian Economic Regulator

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**OTTER CUSTOMER CONSULTATIVE COMMITTEE
MEETING 2/2017
WEDNESDAY 17 MAY 2017**

PROJECTS ON THE GO

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1. TASMANIAN WATER AND SEWERAGE (GENERAL UPDATE)

a. Price Determination Investigation for the third regulatory period

OTTER continues to have regular meetings with TasWater and TasWater's consultant, Jacobs. Issues discussed include regulatory depreciation and operating and capital expenditure for the next regulatory period (including proposed escalation rates for different operating expenses).

The Regulator received four quotations in response to its request for quotation to review TasWater's past (1 July 2015 to 30 June 2016), current (1 July 2016 to 30 June 2017) and forecast (1 July 2017 to 30 June 2021) OPEX and CAPEX. Once the quotation evaluation process has been completed, it is expected that Regulator will appoint the preferred consultant by the end of May.

TasWater is required to submit its proposed PSP for the third regulatory period on 30 June 2017.

b. Water and Sewerage – Government reforms

The Government announced on 7 March 2017 that it intends taking over TasWater and restructuring it as a Government Business Enterprise effective from 1 July 2018. OTTER has been involved in preliminary discussions with Treasury on the impact of this decision on the upcoming investigation and on the Regulator's future regulatory role in relation to water and sewerage.

c. TasWater's 2015-16 Regulatory Financial Statements

Each year TasWater is required to have its regulatory financial statements prepared and audited in line with the Regulator's Water and Sewerage Accounting Ring-Fencing Guideline. The Regulator appointed the Tasmanian Audit Office (TAO) to conduct the audit of TasWater's 2015-16 regulated financial statements.

Because of delays in the finalisation of the TAO audit, TasWater was granted an extension of time to submit its final regulatory financial statements.

TasWater submitted its revised Statements on 28 April 2017. The Regulator is to consider the revised Statements at its meeting on 18 May 2017.

d. Tasmanian Water and Sewerage State of the Industry Report

The 2015-16 SOIR was released on 29 March 2017. The interest in, and focus on, the report was heightened following the Government's announcement on 7 March 2017 that it intends to take over TasWater and restructure it as a Government Business Enterprise effective from 1 July 2018.

The report was condensed relative to previous years and focussed on key performance outcomes during the year. Other industry regulators made contributions to the report, including public health (DHHS), environment (EPA Tasmania), water (DPIPWE) and dam safety (DPIPWE).

OTTER has commenced a review of the SOIR process to identify efficiencies, including the possibility of bringing the time of release forward. Options will be discussed with other industry regulators as part of the review and to plan the next report.

2. ELECTRICITY (GENERAL UPDATE)

a. 2017-18 standing offer price approval process

On 2 May 2017, the Government introduced legislation to address concerns about the impact of rising wholesale electricity prices on retail electricity prices in Tasmania. The legislation was passed by the House of Assembly on 4 May and is expected to be considered by the Legislative Council during the week ending 26 May.

The amendments will allow the Treasurer to determine, by Ministerial Order, an alternative wholesale electricity price (WEP) to that calculated by the Regulator under the existing wholesale framework. This approach will enable the Government to, in effect, cap regulated standing offer prices. As noted in the Second Reading Speech for the amendment Bill, the Government is targeting an increase for 2017-18 of around two per cent (current CPI).

However, until the legislation is passed, both the Regulator and Aurora Energy have a statutory obligation to comply with the standing offer determination (the *2016 Aurora Energy Standing Offer Price Determination, 5 May 2016*) and the related guideline, the *Standing offer price approval process in accordance with the 2016 Standing Offer Determination, 28 April 2016* (Guideline).

This means that the Regulator is required to calculate the 2017-18 WEP and advise Aurora Energy of the WEP no later than 23 May. The Guideline also requires Aurora Energy to submit its 2017-18 Pricing Proposal by 30 May 2017. However, as at 30 May, the Ministerial Order containing the Treasurer's WEP will not have been made such that it will not be possible for Aurora Energy to prepare and submit its standard pricing proposal.

The Regulator therefore intends advising Aurora Energy to submit a very brief preliminary pricing proposal by 30 May to ensure compliance with the Guideline and then submit a supplementary full pricing proposal as soon as possible after the Ministerial Order has been made.

The Regulator expects to approve Standing Offer prices to apply from 1 July 2017 in mid-June.

b. Updating Schedule 1 of the Wholesale Contract Regulatory Instrument

OTTER is developing approaches to updating the Schedule 1 input values and has engaged Concept Consulting to update the values in Tables 3 and 6 of the Schedule and provide the Regulator with a method to update those values in the future. The Regulator anticipates releasing a draft Approach Paper for public consultation in late May 2017.

c. Standing Offer price comparison report - February 2017

In March 2017, the Regulator published the Comparison of Australian Standing Offer Energy Prices as at 1 February 2017 Report. The Report was tabled in Parliament on 4 April 2017 and is available on the OTTER website.

3. ELECTRICITY - RETAIL AND DISTRIBUTION QUARTERLY PERFORMANCE REPORTS (Q3, 2016-17)

Aurora Retail

Aurora Energy (Retail) has provided its performance report for Q3, 2016-17 as required by Regulation 13 of the *Electricity Supply Industry Regulations 2008*. Performance measures are reported in accordance with the AER's performance reporting procedures and guideline and are provided in Appendices 1 and 2.

TasNetworks

In accordance with the requirements of the Tasmanian Electricity Code, TasNetworks has provided its performance report for Q3, 2016-17.

TasNetworks reported that, during the quarter:

- there were no Major Event Days (MED); and
- there were 1 307 GSL payments made worth around \$110 000 for the quarter.

Overall system performance (distribution and transmission)

Overall system performance SAIDI¹ and SAIFI² accounts for outages in the transmission and distribution network, including third party causes and MEDs. Quarterly performance is shown in Table 1.

Table 1 Overall system performance

	2015-16 Q3	2015-16 Q4	2016-17 Q1	2016-17 Q2	2016-17 Q3
SAIFI	0.63	0.84	0.73	0.59	0.45
SAIDI	107	165	185	85	48

The respective contributions to SAIFI and SAIDI are shown in Figures 1 and 2 respectively.

¹ System Average Interruption Duration Index: the average outage duration for each customer served

² System Average Interruption Frequency Index: the average number of interruptions that a customer would experience

Figure 1 Contributions to SAIFI

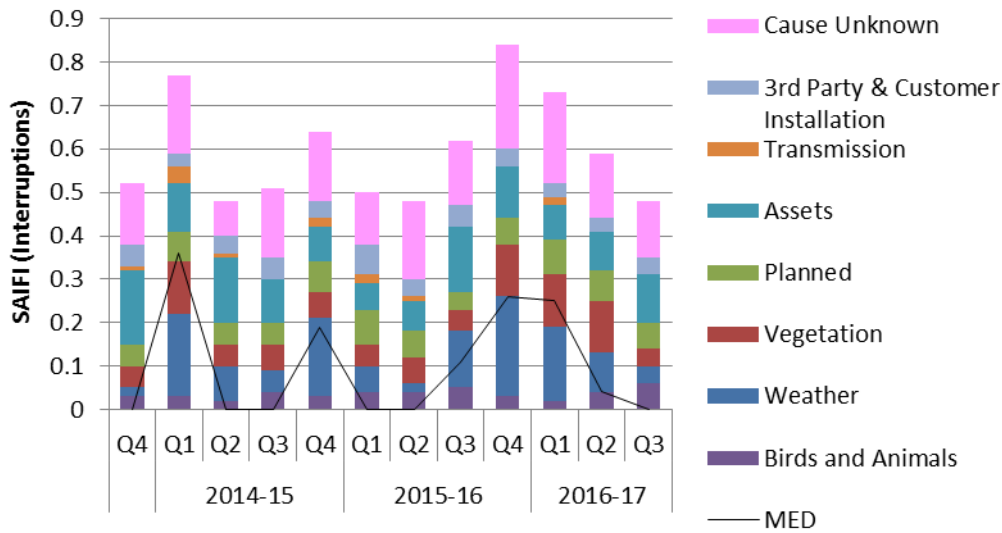
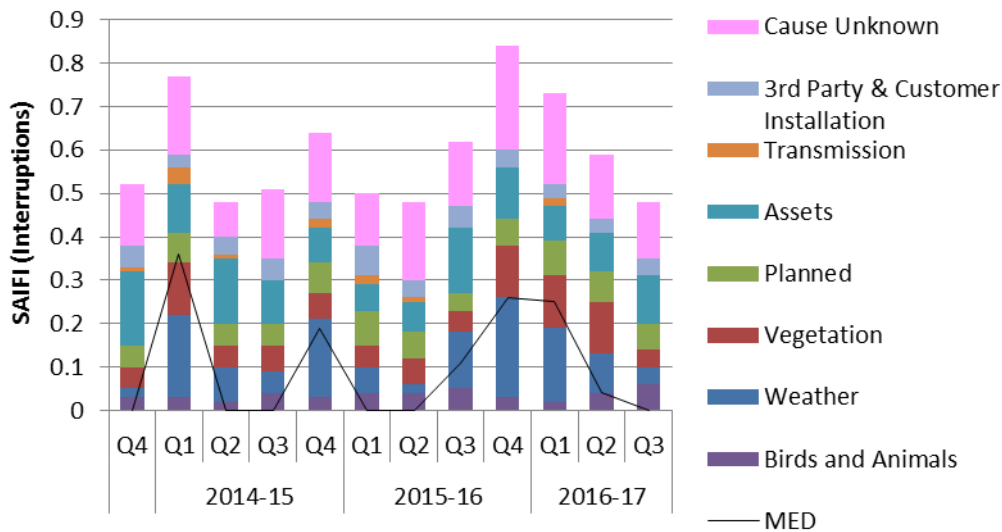


Figure 2 Contributions to SAIDI



Distribution only system performance

Major Event Days (MEDs)

For 2016-17, a MED is a day that contributed more than 6.54 minutes to annual SAIDI. There were no MEDs for Quarter 3, 2016-17.

Major interruptions

Major interruptions are those that contribute greater than one system minute of SAIDI to overall network performance. The impact of an interruption depends on the length of the interruption and the connected kVA of installations affected. Major interruptions for the quarter excluding the events in MEDs.

- On 2 February 2017 the Trevallyn feeder tripped and locked out due to a broken overhead conductor. The outage lasted for 13 hours, with approximately 1 660 customers affected at the peak of the event.
- On 7 March 2017 the Burnie feeder tripped and locked out due to a connector failure. The outage lasted for 6 hours, with approximately 1 640 customers affected at the peak of the event.

Table 2 Distribution network performance (excluding transmission and third parties)

	2015-16 Q3	2015-16 Q4	2016-17 Q1	2016-17 Q2	2016-17 Q3
SAIDI	92	160	166	81	48
SAIFI	0.58	0.80	0.68	0.56	0.45
CAIDI ³	159	200	244	144	107
MAIFI ⁴	1.54	1.67	1.04	1.02	1.2

Community and category performance

A summary of quarterly performance in respect to the '101 Communities' is provided in Tables 3, 4 and 5.

Table 3 Communities Exceeding Duration and Frequency Standards

Distribution	2015-16 Q3	2015-16 Q4	2016-17 Q1	2016-17 Q2	2016-17 Q3
Number of communities exceeding duration standard	15	25	37	39	30
Number of communities exceeding frequency standard	7	8	11	14	12
Number of communities exceeding either the frequency or duration standard	15	26	39	40	33
Number of communities exceeding both the frequency or duration standard	7	7	9	13	9

³ Customer Average Interruption Duration Index: the average outage duration that any given customer would experience or the average restoration time

⁴ Momentary Average Interruption Frequency Index - the average number of momentary interruptions that a customer would experience during a given period

Table 4 Community Category Performance - SAIFI

SAIFI	Q3, five year Average	2016-17					Annual Limit
		Q1	Q2	Q3	Q4	Total	
Critical Infrastructure	0.06	0.05	0.26	0.02	0	0.33	0.2
High Density Commercial	0.11	0.04	0.03	0.04	0	0.11	1
Urban and Regional Centres	0.31	0.44	0.24	0.26	0	0.94	2
Higher Density Rural	0.72	0.99	0.82	0.68	0	2.49	4
Lower Density Rural	0.99	1.02	1.06	0.72	0	2.80	6

Table 5 Community Category Performance - SAIDI

SAIDI	Q2, five year average	2016-17					Annual Limit
		Q1	Q2	Q3	Q4	Total	
Critical Infrastructure	4.92	13.94	8.10	0.72	0	22.76	30
High Density Commercial	12.29	6.78	2.36	1.49	0	10.63	60
Urban and Regional Centres	34.48	70.63	22.19	25.11	0	117.93	120
Higher Density Rural	100.8	281.31	121.06	69.97	0	472.34	480
Lower Density Rural	156.44	291.17	178.12	84.61	0	553.90	600

Customer Service

Table 6 TasNetworks' distribution network – customer service performance indicators

	2015-16 Q3	2015-16 Q4	2016-17 Q1	2016-17 Q2	2016-17 Q3
Calls received	52 310	66 138	65 904	39 542	28 299
Complaints - reliability/quality of supply/complaints as a percentage of installations	130 (0.05%)	107 (0.05%)	154 (0.05%)	108 (0.05%)	120 (0.04%)
Streetlight faults	367	1 267	972	378	972
Streetlight faults repaired within 7 days	227	618	568	271	568
New connections	616	850	637	680	617
New connections made on time	535	498	428	487	501
New connections Customer charter payments/value	20/ \$4 320	110/ \$11 610	74/ \$7 710	62/ \$7 050	55/ \$5 040
Planned interruptions	1 120	1 761	1 201	842	790
Planned interruptions Customer charter payments/value	9/\$270	17/\$660	16/\$480	22/\$660	31/\$930
GSL - Number of payments	6 168	5 589	26 397	4 344	1 307
Amount	\$673 360	\$518 400	\$3 064 720	\$492 280	\$109 600

4. WATER AND SEWERAGE, ELECTRICITY AND GAS LICENSING (UPDATE)

No update required on licensing matters.

5. MOTOR ACCIDENTS INSURANCE BOARD (MAIB) PRICING

On 12 December 2016, the Minister for Infrastructure and the Treasurer sent a Request and Terms of Reference to the Regulator to conduct an investigation into the MAIB's pricing policies. These investigations occur every four years.

The Regulator is taking a similar approach to that used in previous pricing investigations. This involves analysing and consulting on the MAIB's Preliminary Submission, releasing a draft investigation report for comment and then preparing a final investigation report that considers any submissions made in response to the draft investigation report.

The Regulator has also engaged the services of actuarial consultants Finity Consulting to assist with the analysis of the MAIB's preliminary submission.

A notice of the investigation was published in the major Tasmanian newspapers and on the Regulator's website in early February 2017. This notice invited public

submissions and included a copy of the MAIB's Preliminary Submission to the investigation. The Regulator received submissions from the Tasmanian Motorcycle Council, the Tasmanian Taxi Council and Uber.

The Regulator expects to release a Draft Report for public consultation in late May 2017 outlining its draft conclusions and intended recommendations and inviting comments. The Draft Report will incorporate the advice received from Finity Consulting as well as comments from those organisations who made submissions.

The investigation will conclude in July 2017 when the Regulator releases its Final Report. At this time the Regulator will also provide its recommendations as to the MAIB's maximum premiums for the upcoming pricing period (1 December 2017 to 30 November 2021).

The Regulator's role in relation to the MAIB is recommendatory rather than determinative in nature ie the Regulator makes a recommendation to the Government, which then makes a decision as to the appropriate level of premiums to be levied for each vehicle class.

6. REGULATION - OTTER REVISED STRUCTURE OF LICENCE FEES

The Office of the Tasmanian Economic Regulator supports the Regulator in undertaking its functions under the *Electricity Supply Industry Act 1995*, the *Water and Sewerage Industry Act 2008*, the *Gas Act 2000* and the *Gas Pipelines Act 2000*. Licence fees (or equivalent) enable the Regulator to recover its reasonable costs in the administration of these four Acts where they have not been funded by the Consolidated Fund or the entities directly.

The Tasmanian Electricity Code (TEC) requires the Regulator to develop an electricity licence fee structure that is consistent with a set of principles set down in the TEC and sets out how licence fees will be determined.

The structure of electricity licence fees is reviewed periodically. The last review was conducted by the Regulator in early 2014 and applied to the period 1 July 2014 to 30 June 2017.

The Regulator also sets licence fees for gas industry participants and is required to provide advice to the Minister for Primary Industries and Water on the Regulator's component of the licence fees to be paid by water and sewerage industry participants. As such, an outcome of the 2011 review was the widening of the application of the Structure of Licence Fees for the electricity supply industry. That is, the Structure of Licence Fees would document, from that point forward, the methodology that would apply in the determination of licence fees (or their equivalent) in most areas of the Regulator's industry-funded activities.

In late 2016 the Regulator commenced a review of the structure of licence fees to be applied from 1 July 2017. The Regulator released, in January 2017, a Consultation Paper and a Draft Structure of Licence Fees for the electricity, gas and water and sewerage sectors, setting out the proposed methodology for determining licence fees (or their equivalent) from that time. The Regulator requested submissions with respect to the proposed methodology as presented. Consultation closed on Friday, 10 February 2017.

Two submissions were received as part of the consultation process. A brief outline of the matters raised in those submissions, and the Regulator's responses to them, is available on the Regulator's website www.economicregulator.tas.gov.au.

Having given consideration to the issues raised during consultation, the Regulator progressed amendments to its draft structure of licence fees as circulated for public comment. The Final Structure of Licence Fees, to apply from 1 July 2017, was published by the Regulator on 28 March 2017.

Appendix 1 – Aurora Energy quarterly performance – residential

Retail - Residential	Trend - 5 qtrs	2015-16 Q3	2015-16 Q4	2016-17 Q1	2016-17 Q2	2016-17 Q3
Customer numbers						
standing offer		208 536	209 762	212 545	213 250	213 832
APAYG customers		27 181	26 670	24 588	24 287	23 975
Payment difficulties						
debt repayment		4 605	3 676	3 032	4 369	4 623
average amount		\$754	\$739	\$785	\$739	\$759
debt \$500 - \$1 500		1 304	947	797	1 225	1 292
debt \$1 500 - \$2 500		374	279	231	341	376
debt over \$2 500		259	220	208	246	279
Payment plans						
customers on payment plan		2 115	2 085	2 366	2 658	2 693
customers who had their plan cancelled for non-payment		938	850	625	697	921
customers with 2 or more plans cancelled in the last 12 months		327	326	259	219	272
Disconnections						
residential disconnections		326	266	241	230	258
concession customers disconnected		223	168	113	116	132
payment plan customers disconnected		95	84	70	55	63
customers disconnected more than once in 24 months		22	21	20	14	11
Reconnections						
reconnections (within 7 days)		170	115	114	124	114
payment plan customers		34	36	31	24	21
concession customers		100	67	44	54	52
APAYG - Prepayment meter (PPM) customers						
PPM customers with a concession		13 524	13 829	13 038	12 835	12 649
PPMs able to report self-disconnections		10 337	10 854	10 210	10 340	10 700
PPM self-disconnection events		607	1 033	941	743	560
customers self-disconnected		517	820	719	622	484
average duration of disconnection events (minutes)		256	244	293	250	285

Retail - Residential	Trend - 5 qtrs	2015-16 Q3	2015-16 Q4	2016-17 Q1	2016-17 Q2	2016-17 Q3
Hardship program						
customers on the hardship program		2 144	2 065	2 105	2 199	2 154
hardship customers with a concession		1 657	1 632	1 694	1 794	1 767
customers denied access		0	0	0	0	0
customers exiting the program		113	160	435	393	512
average debt upon entry to program		\$1 799	\$1 866	\$1 493	\$1 617	\$1 554
debt \$0 - \$500		63	65	90	69	64
debt \$500 - \$1 500		211	165	219	219	193
debt \$1 500 - \$2 500		108	96	88	96	125
debt over \$2 500		95	103	78	103	85
average debt		\$1 304	\$1 267	\$1 476	\$1 540	\$1 393
customers who successfully completed program		95	183	130	99	134
customers excluded from program		289	268	224	218	259
customers who transferred		73	74	81	76	119
Complaints (residential)						
billing		1 124	1 397	1 824	1 755	1 584
marketing		0	0	0	0	0
customer transfer		0	0	0	0	0
other		397	467	424	533	542
TOTAL		1 521	1 864	2 248	2 288	2 126

Appendix 2 – Aurora Energy quarterly performance – small business

Retail - Small Business	Trend - 5 qtrs	2015-16 Q3	2015-16 Q4	2016-17 Q1	2016-17 Q2	2016-17 Q3
Customer numbers						
standing offer		30 910	30 579	30 446	30 570	30 596
market contracts		5 333	5 479	5 465	5 458	4 654
Total small business		36 243	36 058	35 911	36 028	35 250
Payment difficulties						
customers repaying a debt		220	188	184	205	172
average customer debt		\$ 802	\$ 885	\$ 901	\$ 804	\$ 684
Disconnections		24	22	18	19	18
Reconnections		7	2	4	5	4
Complaints						
billing		114	167	236	240	229
marketing		0	0	0	0	0
customer transfer		0	1	0	0	0
other		25	48	39	41	62
TOTAL		139	216	275	281	291