

# Structure of Licence Fees for the Electricity, Gas and Water and Sewerage Sectors

Applicable 1 July 2020 to 30 June 2025

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# TABLE OF CONTENTS

- 1 PRINCIPLES ..... 4
- 2 STRUCTURE OF LICENCE FEES..... 5
  - 2.1 PERIOD OF APPLICATION OF THIS FEE STRUCTURE.....5
  - 2.2 ALLOCATION OF COSTS BETWEEN INDUSTRY SECTORS .....5
  - 2.3 ELECTRICITY SUPPLY INDUSTRY ..... 5
    - 2.3.1 Generators..... 6
    - 2.3.2 Other licensees ..... 6
  - 2.4 WATER AND SEWERAGE INDUSTRY ..... 6
  - 2.5 GAS INDUSTRY .....7
    - 2.5.1 Annual licence fees..... 7
  - 2.6 PART YEAR FEES FOR NEW ENTRANTS .....7
  - 2.7 ADJUSTMENTS .....8
  - 2.8 PREPARATION AND NOTIFICATION OF LICENCE FEES PAYABLE .....8
  - 2.9 EXEMPTIONS FROM THE PAYMENT OF LICENCE FEES .....8
    - 2.9.1 Electricity supply industry ..... 8
    - 2.9.2 Water and sewerage industry ..... 9
    - 2.9.3 Gas industry ..... 9

# 1 PRINCIPLES

In determining the fee structure in the electricity supply industry, 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 four principles set out in clause 2.4.1(b) that are set out below.

## 1. The structure of licence fees should be simple

The structure largely relies on Office of the Tasmanian Economic Regulator (OTTER) staff recording in timesheets the 'regulatory effort' applied to each licensee and sector (gas, electricity and water and sewerage). Overheads are allocated each quarter in proportion to the regulatory effort applied to a licensee or sector.

## 2. 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. The Regulator will prepare a budget before the beginning of each financial year which will identify the Regulator's estimated 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 structure provides for adjustments to be made in respect of those sectors or licensees that were the drivers of the revenue requirement shortfall or surplus from the previous year.

## 3. Licence fees charged to each licensee should be cost reflective

The components of the licence fees charged to each licensee should be reflective of the extent to which the Regulator's budgeted revenue requirements involve that licensee.

## 4. Licence fees should not unreasonably discriminate against licensees

The Regulator levies licence fees based on the regulatory effort applicable to a sector and licensees concerned. This ensures that licensees are not unreasonably discriminated against.

The Regulator has applied these four principles in the Structure of Licence Fees for the Electricity, Gas and Water and Sewerage Sectors (Structure of Licence Fees) that will apply for the period 1 July 2020 to 30 June 2025.

## 2 STRUCTURE OF LICENCE FEES

### 2.1 Period of application of this fee structure

This Structure of Licence Fees will apply for five years, from 1 July 2020 to 30 June 2025.

The Regulator may review the structure earlier should there be substantial changes to relevant legislation, other material changes that would warrant such a review, or at the request of a licensee with a legitimate reason or concern.

A new Gas Industry Act (Act) is expected to be proclaimed in 2020. The new Act will repeal the *Gas Act 2000* and *Gas Pipelines Act 2000* (Gas Acts). The requirements in the current version of the Act largely replicate the requirements in the current Gas Acts, in that the fee determined by the Regulator for gas licensees will continue to represent the reasonable cost of administering the Act in relation to a licensee. Key differences with the new Act are that the Regulator will no longer:

- ❑ recover costs on behalf of the Director of Gas Safety; and
- ❑ licence pipeline facility owners, as the new Act does not include any services relating to pipeline facilities as an activity.

The requirements of the new Act have been taken into account when preparing the Structure of Licence Fees. It is not anticipated that the structure will require revision once the new Act comes into effect.

### 2.2 Allocation of costs between industry sectors

The Regulator will allocate its costs to each licensee and industry sector on the basis of 'regulatory effort' directly applied to a licensee or 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 a licensee or sector. For example, if 35 per cent of staff time is allocated to the Hydro Electric Corporation, then 35 per cent of the overheads are applied to that licensee.

### 2.3 Electricity supply industry

The Regulator's budgeted revenue requirement associated with the regulation of the electricity supply industry will be further allocated to generators, the transmission network service providers, retailers (where relevant) and the distributor.

### 2.3.1 Generators

The annual licence fee for generators will comprise a fixed component of \$1 000 and a variable component based on regulatory effort applicable to each generator to cover 'regulatory effort' applied by the Regulator, including a share of the Regulator's overheads. The variable component will be subject to adjustment as set out in section 2.7.

A generator may apply to the Regulator for a licence fee reduction 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

The Regulator has determined the costs of regulating the electricity distribution, transmission and retail sectors be recovered from licensees as follows:

- ❑ for distribution, TasNetworks Pty Ltd (TasNetworks) will meet the Regulator's budgeted expenditure on the distribution sector, subject to any adjustment as set out in section 2.7.
- ❑ transmission licensees TasNetworks and Basslink Pty Ltd will pay a variable licence fee equivalent to regulatory effort applied to each licensee, subject to any adjustment as set out in section 2.7.
- ❑ Hydro Tasmania, for its generation, distribution and retail operations on the Bass Strait Islands (i.e. King Island and Flinders Island), will pay a licence fee equivalent to the Regulator's costs associated with Bass Strait Islands regulatory activities, subject to any adjustment as set out in section 2.7.
- ❑ for retail, Aurora Energy Pty Ltd is not licensed by the Regulator and therefore does not pay an annual licence fee<sup>1</sup>. It is instead invoiced quarterly for the cost of retail electricity services provided by the Regulator.

## 2.4 Water and sewerage industry

As per section 2.2, the Regulator will allocate its budgeted revenue requirement to regulate the water and sewerage sector on the basis of regulatory effort applied to that sector, plus a proportion of the Regulator's overheads.

The Regulator's budgeted revenue requirement forms only one input into the setting of the licence fees that are payable by the Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater), currently the only licensed water and sewerage entity. Therefore, the Regulator's budgeted revenue requirement will be notified to the Department of Primary Industries, Parks, Water and Environment prior to the commencement of the financial year. The Minister for Primary Industries and Water will then determine the licence fees payable by TasWater.

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<sup>1</sup> The introduction of the National Energy Customer Framework (NECF) in Tasmania from 1 July 2012 resulted in jurisdictional electricity licensing for retailing on Mainland Tasmania being replaced by a national authorisation scheme. Accordingly, and from that time, electricity retailers operating in mainland Tasmania are no longer issued a retail licence by the Regulator.

If another entity is licensed under the *Water and Sewerage Industry Act 2008* (WSI Act) during the period, the budgeted revenue requirement for the water and sewerage sector would be allocated among the licensees in accordance with section 2.2.

The Regulator's budgeted revenue requirement in this sector may be adjusted in accordance with section 2.7.

## **2.5 Gas Industry**

### **2.5.1 Annual licence fees**

The Regulator's budgeted revenue requirement associated with regulation of the gas supply industry, and administration of the gas legislation, will be allocated in accordance with section 2.2.

The annual licence fee for gas licensees will comprise a fixed component of \$1 000 and a variable component which will reflect the 'regulatory effort' applied to that particular licensee and, in some cases, that licensee's allocation of the regulatory costs of the gas supply industry, or a subsection of that industry. This is consistent with the licence fee methodology applied in the electricity sector and is in line with the principle of licence fees being cost reflective.

With respect to LPG licence fees, the Regulator has determined that small LPG gas distributors and small LPG gas retailers pay a nominal annual licence fee of \$50.

The licence fees, except the nominal annual fixed fee amounts of \$50, may be adjusted in accordance with section 2.7.

In the unlikely event that a new, small natural gas distribution network is established, the Regulator will determine an appropriate fee.

Under the gas legislation, the Regulator may issue one or more licences to a licensee. One annual fee is charged per licence type (gas retail, distribution or transmission licence).

The proposed licence fees only relate to the Regulator's costs of administration of the gas legislation. If required under legislation, the licence fee will be increased as necessary to recover the costs of the Director of Gas Safety, with those funds then remitted to the Director of Gas Safety.

Whilst the licence fee for gas entities may include a component to recover the costs of the Director of Gas Safety, the licence fee estimate provided by the Regulator to gas licensees in March (see section 2.8) will only reflect the Regulator's own costs.

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

Licence fees for new entrants into the electricity supply, gas, or water and sewerage industries that apply for part of a year will be determined by the Regulator on a case by case basis.

## 2.7 Adjustments

An adjustment to licence fees may be made where:

1. the Regulator's actual costs have exceeded or fallen short of those budgeted in the current year; 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 current year (such an adjustment would be warranted where the Regulator's resources are directed to significant activities which were not anticipated at the time that the licence fees were determined); and/or
3. for the gas sector, where applicable, the Director of Gas Safety is able to recover its costs of administering the gas legislation; and/or
4. the Regulator's initial fee estimate for a licensee, using the budgeted revenue requirement for the forthcoming year, determined in July, differs from the actual expenditure allocated to that licensee in the previous financial year. An adjustment may be made if there is a difference between the two amounts, and there is not expected to be a significant difference in the level of regulatory effort applied to that licensee in the forthcoming year.

## 2.8 Preparation and notification of licence fees payable

Licence holders will be notified by the Regulator as soon as is practical in March of a licence fee estimate for the forthcoming financial year. The final licence fees for the forthcoming year, the calculation of which will include the actual expenditures of the Regulator for the previous financial year, will then be prepared and distributed to licenced entities in July. Licensees are given the option to pay the final licence fee invoice in instalments.

## 2.9 Exemptions from the payment of licence fees

### 2.9.1 Electricity supply industry

The Electricity Supply Industry Regulations 2018 exempt certain generators from the requirement to be licensed. There is no requirement for licence fees to be paid by exempt generators. Regulation 5(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. As such, their operation is unlikely to require any regulatory involvement by the Regulator.

## 2.9.2 Water and sewerage industry

Under the 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 TasWater from the requirement to be licensed and currently only TasWater is required to pay licence fees. If this situation changes, the Regulator may impose licence fees on additional entities that are required to be licensed under the WSI Act.

## 2.9.3 Gas industry

The provisions in the gas legislation require that all licensed gas entities pay an annual licence fee that is a reasonable contribution towards the costs of the administration of the legislation. Under the legislation the Governor may, by Order, exempt from the requirement to be licensed:

- ❑ a person or class of persons; or
- ❑ specified gas infrastructure.

