



**Structure of licence fees for the electricity, gas and
water and sewerage sectors**

Consultation Paper

December 2013

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Office of the Tasmanian Economic Regulator

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TABLE OF CONTENTS

| | | |
|----------|--|-----------|
| 1 | INTRODUCTION | 1 |
| 1.1 | PURPOSE OF THIS PAPER..... | 1 |
| 1.2 | BACKGROUND | 1 |
| 1.3 | CONSULTATION..... | 2 |
| 2 | CONTEXT..... | 3 |
| 2.1 | ELECTRICITY SUPPLY INDUSTRY..... | 3 |
| 2.1.1 | Legislative framework | 3 |
| 2.2 | WATER AND SEWERAGE INDUSTRY..... | 4 |
| 2.3 | GAS INDUSTRY | 5 |
| 2.3.1 | Gas Act..... | 5 |
| 2.3.2 | Gas Pipelines Act..... | 5 |
| 3 | PRINCIPLES | 7 |
| 3.1 | PRINCIPLES TO BE APPLIED BY THE REGULATOR IN DETERMINING THE FEE STRUCTURE..... | 7 |
| 4 | COST DRIVERS | 9 |
| 4.1 | REGULATOR'S ACTIVITIES..... | 9 |
| 4.2 | NATURE OF THE COSTS AND DRIVERS..... | 9 |
| 4.3 | COST DRIVERS IN THE NEXT THREE YEARS (1 JULY 2014 TO 30 JUNE 2017)..... | 10 |
| 4.3.1 | Electricity supply industry..... | 11 |
| 4.3.2 | Gas supply industry | 11 |
| 4.3.3 | Water and sewerage sector | 12 |
| 4.4 | THE REGULATOR'S TOTAL BUDGETED REVENUE REQUIREMENT | 12 |
| 5 | CONSIDERATION OF OTHER FEE STRUCTURES | 13 |
| 6 | STRUCTURE OF LICENCE FEES..... | 15 |
| 6.1 | ALLOCATION OF COSTS BETWEEN INDUSTRY SECTORS..... | 15 |
| 6.2 | ELECTRICITY SUPPLY INDUSTRY | 16 |
| 6.2.1 | Licence fees - generators | 17 |
| 6.2.2 | Licence fees - retailers..... | 18 |
| 6.2.3 | Other licensees | 18 |
| 6.3 | WATER AND SEWERAGE INDUSTRY | 18 |

| | | |
|-------|---|----|
| 6.4 | GAS INDUSTRY | 19 |
| 6.4.1 | Annual licence fees..... | 19 |
| 6.4.2 | LPG licence fees..... | 20 |
| 6.4.3 | Part year fees for new entrants..... | 21 |
| 6.4.4 | Adjustments..... | 21 |
| 6.5 | EXEMPTIONS FROM THE PAYMENT OF LICENCE FEES | 22 |
| 6.5.1 | Electricity supply industry..... | 22 |
| 6.5.2 | Water and sewerage industry | 22 |
| 6.5.3 | Gas industry..... | 22 |

APPENDIX A: TASMANIAN ELECTRICITY TEC PROVISIONS – LICENCES AND FEES 23

APPENDIX B: SUMMARY OF OTHER STRUCTURES 25

| | |
|---|----|
| INDEPENDENT COMPETITION AND REGULATORY COMMISSION (ICRC)..... | 25 |
| ESSENTIAL SERVICES COMMISSION OF SOUTH AUSTRALIA (ESCOSA) | 26 |
| Electricity and gas licence fees | 26 |
| Water licence fees..... | 27 |
| ESSENTIAL SERVICES COMMISSION (VICTORIA) (ESCV)..... | 27 |
| Water licence fees..... | 29 |
| INDEPENDENT PRICING AND REGULATORY TRIBUNAL (NSW) | 30 |
| Electricity licence fees..... | 30 |
| Gas licence fees..... | 30 |
| Water licence fees..... | 31 |
| AUSTRALIAN ENERGY MARKET OPERATOR (AEMO)..... | 32 |
| National Electricity Market Participant Fees..... | 32 |
| Gas Market Fees..... | 34 |
| UTILITIES COMMISSION, NORTHERN TERRITORY | 35 |
| Electricity licence fees..... | 35 |
| Water and sewerage licence fees | 36 |

GLOSSARY

| Term | Meaning |
|-------------------|---|
| ACAT | Australian Capital Territory Civil and Administrative Tribunal |
| AEMA | <i>Australian Energy Markets Agreement</i> between the Australian Government and the states of New South Wales, Victoria, Queensland, Western Australia, South Australia and Tasmania, and the Northern Territory of Australia and the Australian Capital Territory, June 2004, as amended from time to time. |
| AEMC | Australian Energy Markets Commission |
| AEMO | Australian Energy Markets Operator |
| AER | Australian Energy Regulator |
| Aurora Energy | Aurora Energy Pty Ltd |
| Basslink | The electricity supply cable between mainland Australia and mainland Tasmania owned by Basslink Pty Ltd |
| CPI | Consumer price index as prepared and published by the Australian Bureau of Statistics |
| ESCV | Essential Services Commission, Victoria |
| ESCOSA | Essential Services Commission of South Australia |
| ESI | electricity supply industry (in Tasmania) |
| ESI Act | <i>Electricity Supply Industry Act 1995</i> |
| FRC | full retail contestability |
| Gas Act | <i>Gas Act 2000</i> |
| Gas Acts | The Gas Act and the Gas Pipelines Act |
| Gas Pipelines Act | <i>Gas Pipelines Act 2000</i> |
| Hydro Tasmania | Hydro Electric Corporation |
| IPART | Independent Pricing and Regulatory Tribunal, New South Wales |
| ICRC | Independent Competition and Regulatory Commission, Australian Capital Territory |
| LPG | Liquefied petroleum gas |
| MW | Megawatt |
| MWh | Megawatt hour |
| NECF | National Energy Customer Framework |
| NEL | <i>National Electricity Law</i> contained in a schedule to the (amended) <i>National Electricity (South Australia) Act 1996</i> , applied in Tasmania |
| NEM | National Electricity Market |
| NER | National Electricity Rules |
| OTTER | Office of the Tasmanian Economic Regulator |

| Term | Meaning |
|-------------------|--|
| Regulator | The Tasmanian Economic Regulator established under the <i>Economic Regulator Act 2009</i> |
| TasWater | The Tasmanian Water and Sewerage Corporation Pty Limited established under the <i>Water and Sewerage Corporations Act 2012</i> |
| TEC | Tasmanian Electricity Code published by the Tasmanian Economic Regulator |
| Transend Networks | Transend Networks Pty Ltd |
| Treasury | The Tasmanian Department of Treasury and Finance |
| WSI | Water and sewerage industry in Tasmania |
| WSI Act | <i>Water and Sewerage Industry Act 2008</i> |

1 INTRODUCTION

1.1 Purpose of this paper

The purpose of this paper is to set out the Tasmanian Economic Regulator's proposed methodology for determining licence fees (or their equivalent) under the *Electricity Supply Industry Act 1995* (the ESI Act); the *Water and Sewerage Industry Act 2008* (WSI Act); the *Gas Act 2000* and the *Gas Pipelines Act 2000* (Gas Acts) for the three-year period 1 July 2014 to 30 June 2017 and invite comment from licensees and interested parties.

The Office of the Tasmanian Economic Regulator (OTTER) supports the Economic Regulator (the Regulator) in undertaking its functions under the four Acts mentioned above. Each of these Acts provides, in effect, for the Regulator to recover its reasonable costs in the administration of those Acts through licence fees or other means.

The methodology proposed by the Regulator for determining licence fees from 1 July 2014 does not differ from the current Structure of Licence Fees, applicable for the period 1 July 2011 to 30 June 2014. This is with the exception of the licence fees for electricity retailers retailing on mainland Tasmania, as these entities are no longer required to be licensed by the Regulator. In this way, no licence fees will be calculated and payable.

1.2 Background

Since its inception, the Tasmanian Electricity Code (TEC) has required the Regulator to develop an electricity licence fee structure that is consistent with a set of principles set down in that TEC.

The structure of electricity licence fees is reviewed periodically. The last review was completed in early 2011 and applied to the period 1 July 2011 to 30 June 2014.

As part of that review it was resolved that, given the Regulator's then already consistent approach in the calculation of licence fees across the electricity, gas and water and sewerage industries, the Structure of Licence Fees for the electricity supply industry (ESI) would be widened in its application. 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 all areas of the Regulator's industry-funded activities.

In addition to licence fees, certain industry-funded activities are invoiced directly to the entity concerned. For example, TasWater will be invoiced separately for costs associated with the upcoming Price Determination Investigation.

The outcomes of the 2011 review are outlined in the Regulator's publication titled *Structure of licence fees for the electricity, gas and water and sewerage sectors - 29 March 2011*.

1.3 Consultation

Transparency is a feature of the Tasmanian regulatory regime and the Regulator provides extensive opportunity for industry, customer and interested party participation in its processes. This consultation paper has been proposed and is issued in accordance with the *Consultation Policy and Procedures of the Regulator (Version 3, July 2010)*.

Written submissions on this Consultation Paper may be forwarded to:

The Director
Office of the Tasmanian Economic Regulator
GPO Box 770
HOBART TAS 7000

or

by fax to (03) 6233 5666

or preferably by email to

office@economicregulator.tas.gov.au

marked to the attention of the Director, Office of the Tasmanian Economic Regulator.

Submissions must be received by no later than 24 January 2014.

It is normal practice for all submissions to be published on the Regulator's website unless the author of the submission requests confidentiality in relation to the submission (or any part of the submission). Those parts of a submission that are requested to be kept confidential should be submitted as an attachment to that part suitable for publication.

The Regulator will not publish submissions which contain material that the Regulator believes is, or could be, derogatory or defamatory.

Following the consideration of relevant matters contained in submissions, a Structure of Licence Fees – Position Paper will be published by 31 March 2014.

2 CONTEXT

2.1 Electricity supply industry

2.1.1 Legislative framework

The *Electricity Supply Industry Act 1995* (ESI Act) provides for the issue of a licence subject to a number of conditions including ‘... *the electricity entity must pay periodic and other fees and charges fixed by or in accordance with the licence*’.¹ Through the TEC, the Regulator has established the technical standards and administrative arrangements whereby the Tasmanian ESI is, in large part, regulated. The TEC provides for the payment of licence fees by licensed electricity entities in Tasmania to meet the budgeted revenue requirements of the Regulator.

The process for the determination of licence fees is set down in the TEC, and reproduced in Appendix A of this paper.

2.1.1.1 TEC requirements - structure of licence fees

The TEC requires the Regulator to develop, review and publish, in consultation with licensees and such other persons as the Regulator considers appropriate, the structure of licence fees for such periods as the Regulator considers appropriate. In undertaking the process, the Regulator must consider other fee structures in existence that it thinks appropriate for comparison purposes.

The TEC also identifies certain principles that should guide the structure, namely that it be simple; recover the budgeted revenue requirements of the Regulator; be reflective of the extent to which the budgeted revenue requirements for the Regulator involve that licensee; and that it not unreasonably discriminate against licensees.

The TEC requires the Regulator to publish a report that sets out the fee structure that has been determined, the methods used in determining the fee structure and an assessment of the extent to which it complies with the principles set out in Chapter 2 of the TEC. The structure must be published at least three months prior to the implementation of the structure.

Costs incurred by the Regulator in undertaking price investigations under the *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013* are recovered separately from those businesses that are the subject of the investigation. By doing so, these relatively infrequent and resource-intensive activities can be excluded from licence fee calculations. However, costs incurred in administering a

¹ ESI Act, section 22

price determination after the conclusion of an investigation are recovered through licence fees.

2.2 Water and sewerage industry

Section 39 of the Water and Sewerage Industry (WSI) Act sets out the legislative obligations in relation to the setting and payment of annual licence fees. Unlike the electricity and gas supply industries, the Regulator does not determine the licence fees in the water and sewerage sector. The proposed Structure of Licence Fees reflects how the Regulator currently determines its portion of these annual licence fees.

Section 39 (1) states:

(1) The Regulator must require a regulated entity to pay to the Minister such amount, by way of an annual licence fee, as the Minister may from time to time determine in respect of the following:

- (a) a licence;
- (b) an interim licence granted under section 89.

and 39(4):

(4) The amount so determined by the Minister is to be an amount that the Minister considers to be a reasonable contribution towards the cost of administering this Act, including any of the following:

- (a) the costs to be incurred by the Regulator in performing functions and exercising powers, under this Act;
- (b) the costs to be incurred by the Ombudsman in investigating complaints under section 76;
- (c) the costs which will arise from the regulation, by prescribed persons, of activities specified in the licence –

during the year to which the fee relates, in relation to a regulated entity.

As with the ESI, costs incurred by the Regulator in undertaking price investigations under the *Water and Sewerage Industry (Pricing and Related Matters) Regulations 2011* are recovered separately from those regulated water and sewerage entities that are the subject of the investigation. However, costs incurred in administering a water and sewerage price determination after the conclusion of an investigation are recovered through licence fees.

2.3 Gas industry

2.3.1 Gas Act

Section 27 of the Gas Act is relevant in the setting of annual licence fees for gas supply industry participants. Section 27(1) states:

A person is not entitled to the issue or renewal of a licence unless the person first pays to the Regulator the relevant annual licence fee, or the first instalment of the relevant annual licence fee, as the case may require.

And section 27(2)(b):

The holder of a licence issued for a term of 2 years or more must in each year (other than a year in which the licence is due to expire) pay to the Regulator, before the date prescribed for that purpose, the relevant annual licence fee, or the first instalment of the relevant annual licence fee, as the case may require.

And section 27(3):

(3) Subject to subsection (4), the annual licence fee for the distribution and retailing of gas is to be a fee fixed by the Regulator of an amount that the Regulator considers appropriate as a reasonable contribution towards the costs of administration of this Act having regard to the nature and scale of the operations that are authorised by the licence.

Note that the costs of administration of the Gas Act can include the costs of both the Regulator and the Director of Gas Safety.

2.3.2 Gas Pipelines Act

An annual licence fee is also chargeable under the Gas Pipelines Act, which states at section 14(1):

A licensee must pay to the Regulator annually and in advance a fee determined by the Regulator that represents the reasonable cost of the administration of this Act with respect to the relevant pipeline licence.

Again, the costs of administration of the Act can include the costs of both the Regulator and the Director of Gas Safety.

3 PRINCIPLES

3.1 Principles to be applied by the Regulator in determining the fee structure

In determining the fee structure in the electricity supply industry, the Regulator is bound by the TEC. The TEC requires that the structure of licence fees be consistent with a set of principles. As part of its last structure review, the Regulator extended the application of these principles to the setting of fee structures for the gas and water and sewerage sectors. In this way, the principles are now applied in the determination of licence fees across all regulated industries under the Regulator's purview.

The principles to be applied in setting a licence fee structure are as follows:

- The structure of licence fees will be simple.
- Licence fees will recover the budgeted revenue requirements for the Regulator.

The Regulator will prepare a budget before the beginning of each financial year which will identify the Regulators' 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 components of the licence fees charged to each licensee will be reflective of the extent to which the Regulator's budgeted revenue requirements for the Regulator involve that licensee.
- Licence fees will not unreasonably discriminate against licensees.

In undertaking this process, the Regulator will consider other fee structures in existence which it thinks appropriate for comparison purposes.

Proposal for Structure of Licence Fees applicable from 1 July 2014:

The Regulator proposes that the above principles continue to apply in the setting of the licence fee structure (effective 1 July 2014) for the electricity, gas and water and sewerage sectors.

4 COST DRIVERS

4.1 Regulator's activities

The Regulator's objectives and functions under the ESI Act, WSI Act, Gas Pipelines Act and Gas Act are met through the conduct of a number of activities and projects. These are reflected in the Regulator's operating plan and annual report which are published each year on the OTTER website.

4.2 Nature of the costs and drivers

The Regulator's costs can be categorised as:

- fixed (unchanging with the number of licensees); or
- variable (vary with the number of licensees);

and

- common (apply generally to all licensees), which include general administrative functions (management, human resources, finance, training); or
- direct (apply specifically to a licensee or group of licensees), which can also be further recognised as costs that are generic to a particular industry sector, such as activities associated with national electricity regulatory reform.

Table 4.1 broadly captures the activities that drive the Regulator's expenditure when carrying out its functions and meeting its objectives, as specified in legislation, and meeting Government expectations (e.g. monitoring the development of competition).

Table 4.1: Cost types by activity

| Activity/output | Type of Cost |
|---|--|
| Licence administration | Variable; direct |
| Code maintenance and development. | Variable; common to a specific industry |
| Development and publication of guidelines | Variable; common or direct (may apply to a specific industry only) |
| Support OTTER Customer Consultative Committee | Fixed; common |
| Monitor and enforce compliance with legislation, codes and licences | Variable; direct |
| Performance monitoring | Variable; direct |
| Performance reporting | Fixed; common to a specific industry |
| Review of management plans, compliance plans, incident reports and the review of outcomes | Variable; direct |

| Activity/output | Type of Cost |
|--|---|
| Legislation and regulation monitoring and review | Variable; common to a specific industry |
| National working group representation | Fixed; common to a specific industry |
| Price investigations ² | Variable; direct (electricity and WSI only) |
| Price/tariff approvals | Fixed; direct (electricity and WSI only) |
| Price comparison reports | Fixed; direct |
| Market monitoring | Fixed; direct |
| Provision of advice to the Government | Variable; common to a specific industry |
| General administrative functions | Fixed; common |
| Publication of OTTER News, annual report; website development and management | Fixed; common |

The Regulator's revenue requirements to undertake its standard activities and projects can be reasonably anticipated year on year. However, these activities can be supplemented by requests from the Minister to report on certain matters. These projects cannot always be anticipated prior to the start of the year and sometimes the costs are met by Government, rather than the industry.

4.3 Cost drivers in the next three years (1 July 2014 to 30 June 2017)

The standard activities and projects summarised in Table 4.1 will continue as they directly relate to the functions of the Regulator set down in legislation or promote the Regulator's objectives in carrying out its functions.

The following sections highlight those matters in each sector that will impact on the Regulator's budgeted revenue requirement in the next three year period. In general, changes in the Regulator's budgeted revenue requirement from that of previous years will be dependent on changes in:

- input costs (in particular salary increases);
- the volume of work associated with certain activities;
- the complexity of tasks;
- the conduct of price investigations,³ and special reports to the Minister; and
- Government policy.

² Costs associated with price investigations are recovered separately from licence fees.

³ Although the costs of price investigations are not met through licence fees, much of the work is undertaken using existing resources, resulting in a reduction in the Regulator's budgeted revenue requirement that is recovered through licence fees.

4.3.1 Electricity supply industry

Regulatory reform within Tasmania's ESI has had, and will continue to have, an impact on the functions and activities of the Regulator.

Under the Government's electricity reform program, implemented during 2013, the Regulator has been given a number of new roles and responsibilities. One of those new roles is the administration of the framework under which Hydro Tasmania will be required to offer regulated electricity derivative contracts to authorised retailers selling in Tasmania.

However, in late September 2013, the Government announced changes to its reform agenda in response to challenges in the external market. Specifically, the Government decided it would not be proceeding with the divestment of Aurora Energy's customers. Notwithstanding, the Regulator's responsibilities in relation to the wholesale contract regulatory framework did not change. The new wholesale contract regulatory framework is due to commence on 1 January 2014.

The changes made to the electricity reform program with respect to the timing of the introduction of retail competition has resulted in Aurora Energy's retail business continuing as the regulated electricity retailer serving Tasmania's residential and small business customers. That is, customers will not be assigned to a new retailer from 1 January 2014 (as initially planned). Rather, the Tasmanian retail electricity market will be open to full retail competition from 1 July 2014. From this date, new retailers will be able to operate in Tasmania.

Despite the changes to its reform program, the Government has indicated continued support for the future sale of Aurora Energy's retail customer base, intending to proceed with the sale when market conditions improve.

In this way, the Regulator will have a continued need to respond to any future, and possibly unanticipated, variations to electricity reform arrangements. In addition, dependent on the outcomes of the State Government election in 2014, there may potentially be further unforeseen changes in Government policy. The Regulator cannot, therefore, confidently assume any lessening of its functions and responsibilities over the medium term in relation to electricity regulation.

4.3.2 Gas supply industry

The regulatory framework for the gas industry has not changed since its establishment and, following its implementation, the Regulator's costs have stabilised and continue to vary little from year to year.

Unlike the electricity supply industry, the NECF does not apply to the Tasmanian gas industry. However, the Office of Energy Planning and Conservation (OEPC) will be, during the period for which the new Structure of Licence Fees is to apply, continuing with its review of Gas legislative instruments including the Gas Codes to align with the NECF in some respects. OTTER will have significant involvement with this project. It is, therefore, unlikely that there will be any diminution of functions and responsibilities for the Regulator over the medium term in relation to gas regulation.

4.3.3 Water and sewerage sector

As would be expected, the implementation phase of the new regulatory framework for the water and sewerage sector in Tasmania was very resource-intensive. However, more recently, and continuing forwards, the Regulator's role with respect to its administration of the regulatory framework has become more maintenance focussed.

Associated regulations, codes and guidelines for the sector have now been developed. In addition, independent regulation of water and sewerage prices in Tasmania commenced on 1 July 2012.

The second regulatory period, with respect to pricing for the industry, will start on 1 July 2015 and end on 30 June 2018. Processes for the second Price Determination Investigation have recently commenced with the issuing, in November 2013, of a Price and Service Plan Guideline to assist TasWater in the preparation of its proposed price and service plan.

As with the ESI, costs incurred by OTTER in undertaking price investigations for a regulated water and sewerage entity will be recovered separately from that entity, and not recovered through licence fees. However, the costs of administering a determination made subsequent to an investigation will be recoverable through licence fees.

The Regulator does not anticipate, at this time, any further major projects, beyond otherwise standard activities, which would significantly impact on the Regulator's revenue requirement for the water and sewerage sector over the medium term.

4.4 The Regulator's total budgeted revenue requirement

The proposed structure, as set out in chapter 6 of this Paper, is based on the assumption that there will be no material change in standard tasks or activities, or staffing arrangements over the next three years. That is, changes in costs, and thus the Regulator's budgeted revenue requirements, primarily will be a function of salary increases paid to staff.

The Regulator's budgeted revenue requirement in each sector for the next three years is anticipated to be as follows:

| | 2014-15 | 2015-16 | 2016-17 |
|-----------------------------|----------------|----------------|----------------|
| Electricity | \$420 000 | \$525 000 | \$525 000 |
| Water & Sewerage | \$472 500 | \$577 500 | \$577 500 |
| Gas | \$126 000 | \$126 000 | \$126 000 |

Note that the aforementioned amounts are indicative estimates which will be recalculated before the commencement of each financial year. Furthermore, these revenue requirement estimates do not include activities associated with pricing investigations.

5 CONSIDERATION OF OTHER FEE STRUCTURES

The TEC requires the Regulator, in developing a structure of licence fees for the ESI, to “*consider other fee structures in existence, which it thinks appropriate for comparison purposes*”.⁴ The Regulator will consider other fee structures in the gas and water and sewerage sectors where appropriate for comparison purposes.

Direct comparison of the quantum of licence fees in each jurisdiction is not necessarily useful. The budgeted revenue requirements for each regulator will depend on the range of regulatory activities to be met by the funding and the size of the regulated industries. The number of licensees in a jurisdiction over which the costs can be spread can differ significantly. The budgeted revenue requirements of some other jurisdictions also include contributions to AEMC costs and other costs driven by requirements specific to the jurisdiction. Further it is noted that the transfer of functions to the national bodies (AER, AEMO and AEMC) may also impact on the quantum of costs incurred and thus the state and territory regulators’ revenue requirements.

The Regulator has considered the funding structures of most of the national and state jurisdictional energy regulators (summarised in Appendix B), focusing on the methodology employed by jurisdictions where budgeted revenue requirements are largely met by the industries they regulate.

Having regard to these, the Regulator proposes to maintain the current licence fees for the various industry sectors as follows:

- Electricity Supply Industry:
 - for a generation licence, an annual fee comprising a fixed component, and variable component based on MWh generated;
 - for a transmission network licence a fixed annual fee;
 - for the licence for the Basslink interconnector a fixed annual fee;
 - for the licences for the Bass Strait Islands a fixed annual fee; and
 - a variable fee that represents the forecast costs each year in regulating the distributor.

⁴ Clause 2.4.1(c) of the TEC

- Water and Sewerage Industry:
 - a variable fee that represents the forecast costs each year in regulating the WSI; and
- Gas industry:
 - a fixed annual fee (inclusive of a variable component representing regulatory effort) for each gas pipeline operator, distributor and retailer.

These proposals are discussed in detail in chapter 6 of this Paper.

6 STRUCTURE OF LICENCE FEES

As noted in section 1.2 of this Paper, the Regulator set licence fees in the electricity supply industry and its component of licence fees in the gas and water and sewerage sectors for the period 1 July 2011 to 30 June 2014 using the methodology contained in the Regulator's *Structure of Licence Fees Position Paper – March 2011*.

An overview of the current licence fee structure applicable within the three industry sectors is provided below along with a summary of the methodology proposed by the Regulator for determining licence fees from 1 July 2014.

The Regulator is proposing that the new Structure of Licence Fees again apply for a three year period from 1 July 2014. However, the Regulator may review the Structure earlier should there be substantial changes to relevant legislation or other material changes in circumstances that would warrant such a review.

Proposal for the period of application of the new Structure of Licence Fees:

The Regulator proposes that Structure of Licence Fees again apply for a period of three years. That is, from 1 July 2014 to 30 June 2017.

6.1 Allocation of costs between industry sectors

Current Structure:

The Regulator presently allocates its costs to each industry sector on the basis of 'regulatory effort' applied in that industry. That is, the resources that are applied to the regulation of a particular sector are directly allocated to that sector. The allocation of staff costs is effected through the maintenance of timesheets. Costs which are deemed to be 'common', such as administrative overheads, are allocated in proportion to the time that staff expend on the sector. For example, if 35 per cent of staff time is allocated to the water and sewerage sector, then 35 per cent of the overheads are applied to that sector.

Proposal for Structure applicable 1 July 2014 to 30 June 2017:

The Regulator proposes that costs (including common administrative overhead costs) again be allocated to each industry sector on the basis of 'regulatory effort' applied to that industry. That is, the methodology approved under the current Structure of Licence Fees for the allocation of costs between industry sectors will again be applied from 1 July 2014.

6.2 Electricity supply industry

Current Structure:

The Regulator's budgeted revenue requirement associated with the regulation of the ESI, allocated in accordance with section 6.1, is further allocated to generators, the transmission network service providers (Transend Networks and Basslink Pty Ltd) and the distributor (Aurora Energy). In this way, regulatory effort was considered an appropriate method of allocation where there was regular and direct interaction of licensees with OTTER.

However, in respect of some licensees, such as Transend Networks, Basslink Pty Ltd and Hydro Tasmania (in relation to their operations on the Bass Strait Islands), the interaction was limited. Despite this, there were identified activities, which encompassed monitoring and reporting on these entities' performance, for which the Regulator incurred costs. As such, it was considered necessary for the Regulator to apply a fixed fee to these entities to reasonably cover these costs (see section 6.2.3 of this Paper for further information on the fixed fee amounts).

The fixed fee also included a share of the Regulator's overheads.

Under the current approved Structure of Licence Fees, the balance of the Regulator's costs (that is, net of the aforementioned fixed fees) are recovered from generators, retailers and the distributor as outlined overleaf.

Proposal for Structure applicable 1 July 2014 to 30 June 2017:

The Regulator proposes that a fixed fee again be applied to the operations of Transend Networks⁵ (\$50 000), Basslink Pty Ltd (\$25 000) and Hydro's generation, distribution and retail operations on the Bass Strait Islands (\$10 000). Furthermore, that the balance of the Regulator's costs (net of the fixed fee amounts) will continue to be recovered from generators and the distributor (and no longer from retailers as such entities are not required to be licensed by the Regulator).

This approach remains consistent with that approved under the current Structure of Licence Fees and applicable for the period 1 July 2011 to 30 June 2014.

⁵ Aurora distribution and Transend Networks will be merging to form TasNetworks with operations commencing on 1 July 2014. Notwithstanding, for the purposes of licensing arrangements, two separate licences will be held by TasNetworks' operations and two separate distribution and transmission licence fee amounts will be payable. For simplicity and for the purposes of drafting this Paper, reference has still been made throughout to the current separate entities; those being Transend Networks and Aurora Energy. And not the 'to be merged' and newly titled corporation TasNetworks.

6.2.1 Licence fees - generators

Current Structure:

Under the current Structure of Licence Fees, the annual licence fee for generators comprises:

- a fixed component, being a contribution to the Regulator's budgeted revenue requirement that is common to all generators (that is, they do not change with the number of generators); and
- a variable component, where the balance of expenditure on the generation sector is apportioned on the basis of megawatt hour (MWh) metered in the period 1 May to 30 April in the previous year and notified to the Regulator by 31 May.

The fixed component of the licence fee payable by a generator with installed capacity greater than or equal to 5 MW and less than 30 MW is \$5 000.

The fixed component payable by a generator with installed capacity greater than or equal to 30 MW is \$10 000.

For a generator which is not yet operating, only the fixed component is payable.

Example:

In the context of five licensed generators all with a capacity of greater than 30MW, and Regulator's costs allocated to the generation sector of \$160 000, a generator that sells 70 per cent of total electricity generated will pay a fixed fee of \$10 000 and a variable fee of:

$$70\% \times (\$160\,000 - (5 \times \$10\,000)) = \$77\,000$$

giving a total licence fee of \$87 000.

This approach recognises the intermittent output of some generators. Although a large generator may be dispatched intermittently with a small annual output, its output when dispatched may be significant.

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

Proposal for Structure applicable 1 July 2014 to 30 June 2017:

Licence fees for generators will be set as per the current approved methodology outlined in section 6.2.1 of this Paper.

6.2.2 Licence fees - retailers

The introduction of the National Energy Customer Framework (NECF) in Tasmania from 1 July 2012 saw jurisdictional electricity retail licensing being replaced by a national authorisation scheme. Accordingly, and from that time, electricity retailers selling on mainland Tasmania are no longer issued a retail licence by the Regulator nor charged licence fees.

6.2.3 Other licensees

Current Structure:

Under the current Structure of Licence Fees, the remaining licensees are liable for fees as below:

- Aurora Energy (distribution) meets the Regulator's budgeted expenditure on the distribution sector, subject to any adjustment as set out in section 6.4.4.
- Transend Networks pays a fixed licence fee of \$50 000, subject to any adjustment as set out in section 6.4.4.
- Basslink Pty Ltd pays a fixed licence fee of \$25 000, subject to any adjustment as set out in section 6.4.4.
- Hydro Tasmania for its generation, distribution and retail operations on the Bass Strait Islands (i.e. King Island and Flinders Island) pays a licence fee of \$10 000, subject to any adjustment as set out in section 6.4.4.

Proposal for Structure applicable 1 July 2014 to 30 June 2017:

The Regulator proposes that licence fees for the distributor, Transend, Basslink Pty Ltd and Hydro Tasmania's operations on the Bass Strait islands, for the period 1 July 2014 to 30 June 2017, be set as per the current approved methodology outlined in section 6.2.3 of this Paper.

6.3 Water and Sewerage Industry

Current Structure:

Since 1 July 2010, regulated water and sewerage entities have been required to pay licence fees. Each year, OTTER advises the Department of Primary Industries, Parks, Water and Environment of the Regulator's budgeted revenue requirement for the ensuing year to undertake its functions and exercise its powers under the WSI Act. The Regulator's budgeted revenue requirement is an input to the quantum of licence fees determined by the Minister for Primary Industries and Water.

Under the current approved Structure of Licence Fees, the Regulator's budgeted revenue requirement for the water and sewerage sector has been based on its projected 'regulatory effort', that is, its resources applied directly to the sector plus a proportion of the Regulator's overheads (see section 6.1).

The Regulator’s budgeted revenue requirement in this sector is also subject to adjustment in accordance with section 6.4.4 of this Paper.

Proposal for Structure applicable 1 July 2014 to 30 June 2017:

The Regulator proposes that the budgeted revenue requirement associated with regulation of the water and sewerage sector again be allocated in accordance with the current approved methodology as outlined in section 6.1 of this Paper. That is, costs will be allocated on the basis of ‘regulatory effort’ applied in that industry.

6.4 Gas Industry

6.4.1 Annual licence fees

Current Structure:

For the period 1 July 2011 to 30 June 2014, the Regulator has applied a fixed fee to gas licensees. The fixed fee amount includes a share of the Regulator’s overheads (allocated in accordance with section 6.1 of this Paper).

The current fees payable are as set out in Table 6.1 below. These fixed fees are based on historical expenditure on the regulation of the gas sector and recognise that, unlike in the electricity supply sector:

- the Regulator has no responsibilities in the pricing of gas services, being a fully contestable market;
- much of the regulatory activities associated with the gas sector relate to those of the Director of Gas Safety; and
- the Regulator’s ‘regulatory effort’ in relation to the gas sector does not vary significantly from year to year.

Table 6.1: Annual natural gas licence fees*

| Gas operation | Fee |
|---------------------------------|----------|
| Gas pipeline licence | \$10 000 |
| Gas distribution licence | \$30 000 |
| Gas retail licence | \$10 000 |
| Gas pipeline (facility) licence | \$5 000 |

* Where a licensee has both construction and operations licences then only one annual fee is charged.

The aforementioned fees are subject to any adjustment as detailed under section 6.4.4 of this Paper.

The current Structure of Licence Fees also provides for the Regulator to recover the costs of the Director of Gas Safety through licence fees and then remit those amounts to the Director of Gas Safety. The amounts to be recovered for the period 2013-14 are shown in Table 6.2.

Table 6.2: Annual natural gas licence fees for 2013-14

| Gas operation | Contribution to the costs of the Director of Gas Safety |
|---------------------------------|---|
| Gas pipeline licence | \$15 000 |
| Gas distribution licence | \$20 000 |
| Gas retail licence | \$2 800 |
| Gas pipeline (facility) licence | \$5 000 |

6.4.2 LPG licence fees

Current Structure:

With respect to LPG licence fees, the current Structure of Licence Fees provides that small LPG gas distributors and small LPG gas retailers pay a nominal annual fee of \$50. These annual fee amounts are subject to any adjustment as detailed under section 6.4.4 of this Paper.

Proposal for Structure applicable 1 July 2014 to 30 June 2017:

The Regulator proposes that the licence fees for gas licensees be set in accordance with the current approved methodology as outlined in sections 6.4.1 and 6.4.2 of this Paper.

In summary, the Regulator proposes to maintain gas licence fees at the following levels, being a reasonable contribution to the Regulator's costs in administering the Gas Pipelines Act and Gas Act:

- natural gas transmission network a fixed annual fee of \$10 000, subject to any adjustment as per section 6.4.4 of this Paper;
- a natural gas distribution network, a fixed annual fee of \$30 000, subject to any adjustment as per section 6.4.4 of this Paper;
- a natural gas retailer, a fixed annual fee of \$10 000, subject to any adjustment as per section 6.4.4 Paper;
- a small LPG gas distributor, a fixed annual fee of \$50, subject to any adjustment as per section 6.4.4 of this Paper; and
- a small LPG gas retailer, a fixed annual fee of \$50, subject to any adjustment as per section 6.4.4 of this Paper.

The Regulator proposes that in the unlikely event that a new, small natural gas distribution network is established, then an appropriate fee will be separately considered.

Note that the proposed licence fees only relate to the Regulator's costs of administration of the Gas Acts. The licence fee will be increased as necessary to recover the costs of the Director of Gas Safety in administering the Acts.

6.4.3 Part year fees for new entrants

Current Structure:

Under the current Structure of Licence Fees, new entry generators and retailers in the ESI pay the fixed component of their annual fees on a pro-rata basis for the remaining part of the year. The variable component is calculated as outlined in sections 6.2.1 and 6.2.2 of this Paper.

Similarly, new entry retailers in the gas industry pay a pro-rata proportion of the fixed licence fee for the year.

For new entrants in the WSI, the approved Structure of Licence Fees provides that the Regulator is to apply a pro-rata proportion of the full year licence fee.

Proposal for Structure applicable 1 July 2014 to 30 June 2017:

The Regulator proposes that new entrant licensees pay part year fees in accordance with the current approved methodology as outlined in section 6.4.3 of this Paper. The current approved methodology will not, however, apply for new electricity retailers as such entities are no longer required to be licensed by the Regulator (therefore no licence fees will be calculated and payable).

6.4.4 Adjustments

Current Structure:

The TEC provides for licence fees to include adjustments. Under the current Structure of Licence fees, an adjustment to licence fees will be made where:

1. the Regulator's actual costs have exceeded or fallen short of that budgeted; 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 year (such an adjustment would be warranted where the Regulator's resources are directed to significant activities which were not envisaged at the time that the Structure of Licence Fees was determined); and/or
3. the gas sector, the Director of Gas Safety seeks to recover its costs of administering the Gas Acts

Adjustments in respect of points 1 and 2 above are made in the year following that for which the fees were paid.

Proposal for Structure applicable 1 July 2014 to 30 June 2017:

Consistent with the principle set down in 6.1 of this Paper where costs are allocated according to 'regulatory effort', the Regulator proposes that the current approved methodology for adjustments, as outlined in section 6.4.4 above, be maintained.

6.5 Exemptions from the payment of licence fees

6.5.1 Electricity supply industry

The *Electricity Supply Industry Regulations 2008* exempt certain generators from the requirement to be licensed. Hence, there is no requirement for licence fees to be paid by exempt generators. Regulation 4(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 Aurora Energy; hence their operation is unlikely to require any regulatory involvement.

6.5.2 Water and sewerage industry

Under the *Water and Sewerage Industry Act 2008* there is provision for the Minister to exempt persons from any provision of the Act. The Minister, by way of the *Water and Sewerage Industry Exemption Order 2011*, has exempted all but the newly formed Tasmanian Water and Sewerage Corporation Pty Ltd (operational since 1 July 2013) from the requirement to be licensed. Accordingly, only this entity is currently required to pay licence fees. If this situation changes, then the Regulator may impose licence fees on additional entities that are required to be licensed under the WSI Act.

6.5.3 Gas industry

The wording of the Gas Act and Gas Pipelines Act presumes that all gas entities licensed under these Acts will pay an annual licence fee that is a reasonable contribution towards the costs of the administration of the Act, taking into account the nature and scale of the operations. Note that the Governor may by Order issued under the Gas Act exempt a person or class of persons from the requirement to have a licence.

APPENDIX A: TASMANIAN ELECTRICITY TEC PROVISIONS – LICENCES AND FEES

2.4 LICENCE FEES

2.4.1 Development of Licence fee structure

- (a) The Regulator must develop, review and publish, in consultation with Licensees and such other persons, including persons registered pursuant to section 49E of the ESI Act, as the Regulator thinks appropriate in accordance with the Code consultation procedures, the structure of Licence Fees for such periods as the Regulator considers appropriate.
- (b) The structure of Licence Fees should, to the extent practicable, be consistent with the following principles:
 - (1) the structure of Licence Fees should be simple;
 - (2) Licence Fees should recover the budgeted revenue requirements for the Regulator determined under clause 2.4.3;
 - (3) the components of Licence Fees charged to each Licensee should be reflective of the extent to which the budgeted revenue requirements for the Regulator involve that Licensee; and
 - (4) Licence Fees should not unreasonably discriminate against Licensees.

Licence Fees may include adjustments, which may be appropriate in light of the matters described in clause 2.4.3(c)(2).

- (c) In undertaking the process described in clause 2.4.1(a), the Regulator must consider other fee structures in existence, which it thinks appropriate for comparison purposes.
- (d) The Regulator must publish and make available to such other persons as the Regulator thinks appropriate, including persons registered pursuant to section 49E of the ESI Act, the structure of Licence fees determined, the methods used in determining the structure and an assessment of the extent to which the structure complies with the principles set out in clause 2.4.1(b) at least 3 months prior to the implementation of the structure.

2.4.2 Payment of Licence fees

- (a) The Regulator may charge a Licensee the relevant components of Licence Fees in accordance with the structure of Licence Fees, by giving the Licensee a statement setting out the amount payable by that Licensee and the date for payment.

- (b) A Licensee must pay to the Regulator the net amount stated to be payable by that Licensee in a statement issued under clause 2.4.2(a), to meet the Regulator's budgeted revenue requirements by the date specified for payment, whether or not the Licensee disputes the net amount payable.

2.4.3 Budgeted revenue requirements

- (a) The Regulator must prepare and publish before the beginning of each financial year a preliminary budget of the revenue requirements for the Regulator for that financial year which shall include the Regulator's estimated expenditures for the current financial year, as can reasonably be determined at the time of preparation of the preliminary budget.
- (b) As soon as practicable after the beginning of each financial year the Regulator must publish the final budget of the revenue requirements for the Regulator for that financial year which shall include the Regulator's actual expenditures for the previous financial year.
- (c) The budget prepared by the Regulator under clause 2.4.3(a) and 2.4.3(b) must take into account and separately identify projected revenue requirements in respect of:
 - (1) the Regulator's expenditure requirements and operating costs; and
 - (2) any revenue shortfall or excess of the Regulator's expenditure requirements and operating costs from the previous financial year.
- (d) The budget prepared by the Regulator shall not include the revenue requirements for the Regulator to conduct declared electrical service pricing investigations under the Electricity Supply Industry (Price Control and Related Matters) Regulations 2012.

APPENDIX B: SUMMARY OF OTHER STRUCTURES

The following provides an overview of the funding structures of other national and state jurisdictional energy regulators. Licence fee data, where quoted, indicates the most current available at the time of writing.

Independent Competition and Regulatory Commission (ICRC)

The ACT's *Utilities Act 2000* provides for the ICRC's determination of annual licence fees for utilities. The fees cover a reasonable contribution towards the costs incurred, or expected to be incurred, by the ICRC, the ACT Civil and Administrative Tribunal (ACAT), and the Technical Regulator (located in the ACT Planning and Land Authority).

Considerations made by the ICRC when determining annual licence fees include the extent of costs in relation to each utility, the annual licence fees payable by all utilities, and the relative scope and nature of the services provided by all utilities.

In May 2007, the Utilities Act was amended to provide for an energy industry levy to recover the amount of the ACT's national and local regulatory costs in relation to energy industry sectors. Part 3A of the Act (Energy Industry Levy) commenced on 1 July 2007 with the effect of progressively replacing annual licence fees for prescribed energy utilities. Part 3A provides for the making of three determinations by the appointed Levy Administrator, currently the Chief Executive Officer of the ICRC.

The national regulatory costs is the amount determined to be the cost to the ACT of meeting its national regulatory obligations under the Australian Energy Market Agreement (AEMA) in relation to the Australian Energy Market Commission (AEMC) and the Ministerial Council on Energy's responsibilities under the AEMA. Local regulatory costs are currently determined to be those incurred by the ICRC, the ACAT, and the Technical Regulator in the Environment and Sustainable Development Directorate (ESDD).

For 2011-12, levy determinations were made for both national and local regulatory costs for prescribed energy utility sectors; namely electricity distribution and supply and gas distribution and supply. In early 2011-12, the ICRC reviewed the entity in the ACT for the 2011-12 year. These are set out in Table 1.

Table 1: Annual licence fees payable by each entity 2011-12

| Activity | \$ |
|---|---------|
| Electricity distributor or retailer (three entities) [#] | 2 500 |
| Gas distributor or retailer (four entities) [#] | 2 500 |
| Gas transmission (one entity) [*] | 64 777 |
| Water and wastewater services (one entity) [*] | 919 807 |

[#] ICRC – Utilities (Annual Licence Fees Determination) Notice 2011 (No 3)

^{*} ICRC – Utilities (Annual Licence Fees Determination) Notice 2011 (No 2)

Essential Services Commission of South Australia (ESCOSA)

Electricity and gas licence fees

South Australia's *Electricity Act 1996* and *Gas Act 1997* require that licensed entities pay an annual licence fee to ESCOSA. Energy industry licence fees are set by the South Australian Minister for Energy as an amount the Minister considers to be a reasonable contribution towards administrative costs (as defined in the legislation), including the costs of ESCOSA, the Office of the Technical Regulator and the Australian Energy Market Commission (AEMC).

During 2011-12 ESCOSA invoiced \$9.4 million of gas and electricity licence fees. \$6.4 million of the energy industry licence fees were transferred to other regulatory bodies including \$4.6 million to the Office of the Technical Regulator and \$1.6 million to the AEMC.

Table 2: 2013-14 annual licence fees payable in the electricity and gas sectors (as at August 2013):⁶

| Activity | \$ |
|---|-----------|
| Electricity Transmission | |
| ElectraNet | 846 498 |
| Murraylink | 58 200 |
| Electricity Distribution | |
| SA Power Networks | 3 320 000 |
| Electricity Generation (on the basis of plant capacity) | |
| ▪ Over 200 MW | 87 300 |
| ▪ Greater than 100 MW but less than or equal to 200 MW | 58 200 |
| ▪ Greater than 30 MW but less than or equal to 100 MW | 29 100 |
| ▪ Greater than 5 MW but less than or equal to 30 MW | 5 800 |
| ▪ Greater than 100 kVA but less than or equal to 5 MW | 500 |

⁶ ESCOSA, *Schedule of Licence Fees - 2013-14*, August 2013

| Activity | \$ |
|--|-----------|
| Electricity System Controller | |
| ElectraNet | 5 800 |
| Electricity other (e.g. remote and regional area licences) | 1 000 |
| Gas Distribution | |
| Envestra | 2 390 100 |
| Reticulated LPG | 1 000 |
| Gas Retail | |
| Reticulated LPG | 1 000 |

Water licence fees

Under the South Australian *Water Industry Act 2012*, retailers who provide water and/or sewerage services to end-use customers are required to be licensed by the Commission.

Annual licence fees are payable by each licensee towards administrative costs as defined by the Water Industry Act. Licence fees are fixed by the South Australian Treasurer. A licence cannot be issued until the first annual licence fee has been paid.

The annual licence fees, as set by the Treasurer in August 2012, are outlined in Table 3 below and are dependent upon the number of connection points the licensee provides, or intends to provide, retail services in respect of.

Table 3: Licence fees for water and sewerage retail services (Applicable from 1 January 2013):

| Licence | Total connections | Fee \$ |
|------------|---------------------|-----------|
| Very small | Less than 100 | 200 |
| Small | 101 to 500 | 1 000 |
| Medium | 501 to 5 000 | 6 000 |
| Large | 5 001 to 50 000 | 21 000 |
| Major | Greater than 50 000 | 3 100 000 |

Essential Services Commission (Victoria) (ESCV)

The ESCV is funded predominantly by Parliamentary appropriations for the provision of outputs. However, its costs are, in large part, recovered by the Government through licence fees.

The Minister for Finance sets the annual licence fees payable by the regulated businesses in the electricity, gas, ports and water industries. In each case, the annual licence fees payable by the regulated businesses are determined by the

Minister for Finance, as the Minister administering the *Essential Services Commission Act 2001*. The Minister determines the licence fees payable within each industry having regard to the total amount of costs and expenses that are incurred by the ESCV in the exercise of its powers for or in connection with the performance of its functions and the achievement of its objectives in relation to the industry.

Each year, the ESCV provides a recommendation to the Minister for the costs to be recovered and the fees to apply. The ESCV considers some costs to be non recoverable, being not integral or directly related to its regulatory function, and are, therefore, not included in its licence fee calculations.

In making its recommendation to the Minister, the ESCV:

- (1) Determines the total costs of the Commission for the relevant year, distinguishing between project costs and indirect overhead costs.
- (2) Determines the costs to be recovered through licence fees by:
 - identifying those projects where the costs should be recovered through licence fees; and
 - considering any carryover costs to be recovered from previous years and costs to be deferred for recovery in succeeding years.
- (3) Determines the licence fees by:
 - identifying those projects that are directly applicable to particular industries or industry sectors;
 - applying an allocation methodology to allocate project costs across industries or sectors where projects cover more than one industry or sector;
 - considering appropriate categories of licence within sectors and the costs to be recovered from individual licensees; and
 - comparing proposed licence fees with licence fees recovered in previous years to assess reasonableness and monitor variations from year to year.

Table 4: The licence fees for electricity supply industry for 2012-13 year (numbers of licensees, where known, provided in brackets):

| Activity | \$ |
|-------------------------------|--------|
| Generation | |
| Generation < 200 MW | 3 000 |
| Generation 200 - 999 MW | 9 000 |
| Generation > 1000 MW | 15 000 |
| Electricity trader | 750 |
| Transmission | |
| Transmission - State-wide | 15 000 |
| Transmission - Interconnector | 7 500 |

| Activity | \$ |
|--|-----------|
| Distribution (5) | |
| Jemena Electricity Networks | 19 757 |
| CitiPower | 22 299 |
| Powercor Australia | 46 650 |
| SPI Electricity (SP AusNet) | 41 252 |
| United Energy Distribution | 31 738 |
| Electricity and Gas Retail (49) | |
| Restricted retail and retail ≤ 1000 customers (30) | 225 636 |
| Retail between 1 001 and 50 000 customers (4) | 61 727 |
| Retail between 50 001 and 75 000 customers (1) | 30 744 |
| Retail between 75 001 and 100 000 customers (2) | 75 141 |
| Retail between 100 001 and 150 000 customers (4) | 182 540 |
| Retail > 150 000 customers (8) | 1 305 901 |

Water licence fees

The ESCV's approach to setting licence fees in the water industry is to apportion the costs across the industry according to the relative regulated revenue of each water business. This methodology spreads the costs of regulating the industry across the businesses based on their share of industry revenue. The rationale for this approach is that the benefits from regulation are shared equally across water businesses, as they are regulated under the same framework and that licence fees should be stable over time to the extent possible under any particular circumstances.

Table 5: The licence fees for water businesses 2012-13

| Business | \$ |
|-------------------------|-----------|
| Melbourne Water | 1 007 487 |
| City West Water | 474 972 |
| South East Water | 709 282 |
| Yarra Valley Water | 763 138 |
| Barwon Water | 168 607 |
| Central Highlands Water | 75 866 |
| Coliban Water | 85 507 |
| East Gippsland Water | 28 653 |
| Gippsland Water | 110 010 |
| Goulburn Valley Water | 61 437 |
| GWM Water | 51 976 |
| Lower Murray Water | 57 163 |

| Business | \$ |
|-----------------------|-----------|
| North East Water | 53 094 |
| South Gippsland Water | 26 233 |
| Wannon Water | 64 766 |
| Western Water | 61 127 |
| Westernport Water | 18 441 |
| Goulburn-Murray Water | 115 783 |
| Southern Rural Water | 36 926 |

Independent Pricing and Regulatory Tribunal (NSW)

In both the electricity and gas sectors, it is the New South Wales Minister for Resources and Energy who is empowered to issue licences (electricity) or authorisations (gas) to allow an entity to either supply or distribute electricity or natural gas in NSW. These licences and authorisations are issued subject to conditions encompassing such matters as effective retail competition, consumer protection, reliability and safety.

IPART is funded through an appropriation from New South Wales Treasury with no explicit link between licence/user fees and the level of funding received by IPART. Retail licence fees are a fixed fee plus an amount relating to market share, and distribution fees are based on market share.

Electricity licence fees

IPART administers the licensing and authorisation schemes for electricity and gas on behalf of the Minister.

Table 6: Annual electricity licence fees for 2012-13

| Industry participant | fee |
|---|--|
| Retail suppliers | \$10 000 plus \$4 000 for every one per cent of market share |
| <ul style="list-style-type: none"> • Essential Energy • Ausgrid • Endeavour Energy | <p style="text-align: right;">\$25 000</p> <p style="text-align: right;">\$55 000</p> <p style="text-align: right;">\$30 000</p> |

Note: All fees are GST exempt.

Gas licence fees

Under the *Gas Supply Act 1996* (NSW), annual gas authorisation and licence fees are determined on the basis of the Government's costs of regulating the New South Wales gas industry in that financial year. Fees for 2011-12 were as follows:

Table 7: Annual gas fees for 2011-12

| Industry participant | Fee ¹ |
|--|---|
| Reticulator authorisation ² | Fixed fee of \$1 000 plus a variable fee based on each reticulator's share of the total pipeline length in NSW. Total reticulators' fees in 2011-12 were \$516 000 |
| Supplier authorisation | Fixed fee of \$500 plus a variable fee based on market share. Total Suppliers' fees in 2011-12 were \$520 600 |
| Distributor licence | \$200 fixed fee only. Total distributors' fees in 2011-12 were \$1 000 |

Note1: All fees are GST exempt.

Note 2: Only those reticulators with more than 250 km of pipelines are charged the variable component.

Water licence fees

IPART administers operating licences for Sydney Water, Hunter Water, State Water and Sydney Catchment Authority.

The *Water Industry Competition Act 2006* (NSW) establishes a licensing regime for private sector entrants to ensure the continued protection of public health, consumers and the environment. A corporation (other than a public water utility) must now obtain a licence under that Act to construct, maintain or operate any water industry infrastructure or to supply water (potable or non-potable) or provide sewerage services by means of any water industry infrastructure.

A licensee is required to pay an annual licence fee, as determined by the Minister. The amount determined by the Minister cannot exceed the cost of administering the Act, during the year the fee relates to, in relation to the licensee.

The Minister has determined annual licence fees representing a partial recovery of the cost of administering the Act in relation to licensees without hindering competition. For network operators, these fees vary according to the volumetric capacity of the supply of infrastructure to which the licence relates. For retail suppliers, fees vary according to average daily throughput.

Annual licence fees are:

- \$1,000 for 'small' scale retail suppliers
- \$3,000 for 'medium' scale retail suppliers
- \$6,000 for 'large' scale retail suppliers
- \$2,000 for 'small' scale network operators
- \$4,000 for 'medium' scale network operators
- \$9,000 for 'large' scale network operators

The threshold scale levels for determining fees are:

| | Small | Medium | Large |
|---|---|--|--|
| Retail supplier licences | 0 -250kL/day supplied or conveyed | More than 250- 750kL/day supplied or conveyed | More than 750kL/day supplied or conveyed |
| Network operator licences All water/sewerage infrastructure (excluding sewer mining systems or works only) | 0-250kL/day capacity | More than 250- 750kL/day capacity | More than 750kL/day capacity |
| Network operator licences Sewer mining systems or works only | 0-500kL/day conveyed, extracted or treated | More than 500-1,500kL/ day conveyed, extracted or treated | More than 1500kL/ day conveyed, extracted or treated |

Source: *Water Industry Competition Act 2006 (WICA) Fact Sheet: Fees associated with licensing under the Water Industry Competition Act 2006*, January 2010.

Australian Energy Market Operator (AEMO)

National Electricity Market Participant Fees

Under National Electricity Law (NEL), AEMO is required to operate on a full cost recovery but not for profit basis.

AEMO is required by clause 2.11.1 of the National Electricity Rules (NER) to determine the structure of participant fees that are to apply. In March 2011 AEMO has published its determination and report on its *Structure of Participant Fees in the National Electricity Market*.⁷ The structure applied for the period 1 July 2011 to 30 June 2016. The Report sets out AEMO's methodology for determining who will pay Participant fees and how those fees will be calculated. Participant fees are then set when AEMO prepares its budget of revenue requirements prior to the commencement of each financial year in accordance with the methodology. AEMO then publishes a schedule that sets out the level of participant fees calculated in accordance with the structure.

AEMO notes that it must determine the structure of Participant fees "afresh". In doing so, however, AEMO must have regard to the applicable principles in the NEL and the NER and has had regard to previous determinations of the structure of participant fees, where appropriate.

⁷ Copy of this determination and report can be found at <http://www.aemo.com.au/registration/0118-0008.pdf>

The structure of participant fees is designed to recover AEMO's budgeted revenue requirements in connection with its functions under the NEL and the Rules, except for AEMO's expenditures in carrying out the 'Declared Network Functions' that are recovered through transmission use of system charges and not through participant fees. In addition, the costs arising from its role in relation to gas are also not covered by the current Participant Fee Structure. The following provides a summary of the determination:⁸

- (1) For each financial year covered by the structure, 70 per cent of AEMO's general budgeted revenue requirements are called "allocated costs" and are apportioned on the following basis:
 - 54 per cent to market customers; and
 - the remaining is allocated: two thirds to generators (non-market, market semi-scheduled) and market network service providers in respect of their market network services; and one third is apportioned only to market generators and market network service providers.

No costs are apportioned to non-market non-scheduled generators in respect of their non market non-scheduled generating units.
- (2) The allocated costs apportioned to market customers is to be converted to a rate per MWh set on the basis of AEMO's estimate of total MWh to be settled in spot market transactions by market customers during that financial year. The amount payable by each market customer for a billing period is that rate multiplied by the actual MWh settled in spot market transactions for that market customer in respect of that billing period.
- (3) The costs apportioned to a group of generators and market network service providers for a financial year:
 - 50 percent is to be shared between each member of that group on the basis of the aggregate of the MWh of energy scheduled or energy metered in the previous calendar year in respect of their generating units of the relevant category and market network services as a proportion of the equivalent figures for all those members, and converted to a daily rate for each member; and
 - 50 percent is to be shared between each member of that group, on the basis of the aggregate of the higher of the greatest registered capacity and greatest notified maximum capacity in the previous calendar year of each of their generating units of the relevant category and market network services as a proportion of the equivalent figures for all those members, and converted to a daily rate for each member.

⁸ See section 15, p. 61 *Structure of Participant Fees in the National Electricity Market*.

- (4) The remaining 30 per cent of AEMO's general budgeted revenue requirements plus budgeted revenue requirements determined under the NER for the costs of transition and AEMO's consumer advocacy funding obligation are called "administration and transition costs" and are allocated to market customers. These costs will be converted to a rate per MWh set on the basis of AEMO's estimate of total MWh to be settled in spot market transactions by market customers during that financial year.
- (5) AEMO's budgeted revenue requirements determined under the Rules for FRC will be allocated to market customers that are licensed under the laws of a participating jurisdiction as a retailer (retailers) and levied in two components as follows:
 - an FRC establishment component: (including depreciation on establishment assets, pre-operating receivables and interest), converted to a rate per MWh set on the basis of AEMO's estimate of total MWh to be settled in spot market transactions by retailers during that financial year;
 - an FRC operations component: (covering AEMO's FRC operating costs for a financial year), converted to a rate per MWh set on the basis of AEMO's estimate of total MWh to be settled in spot market transactions by retailers during that financial year against regional reference nodes within participating jurisdictions that have implemented full retail contestability (FRC).
- (6) Network transmission planning activity costs will be allocated to market customers, converted to a rate per MWh set on the basis of AEMO's estimate of total MWh to be settled in spot market transactions by market customers during that financial year.
- (7) For each financial year covered by the structure, AEMO's budgeted revenue requirements determined under the NER for its national smart metering activities will be allocated to market customers, converted to a rate per MWh set on the basis of AEMO's estimate of total MWh to be settled in spot market transactions by market customers during that financial year.

AEMO also provides what it terms "Incremental Services", which are those services rendered to the specific benefit of a recipient such as registration fees. Fees for Incremental Services will be levied on the basis of AEMO's assessment of the labour, overheads and other costs involved in providing the service. In the case of registration fees, AEMO has proposed a set fee to be charged at the time of the application. AEMO has further proposed that these fees be escalated for each financial year after 30 June 2012 in line with movements in the consumer price index (CPI).

Gas Market Fees

AEMO's budgeted costs for the gas industry and those required to pay the costs are set out in its annual budget that is published on its website.

Table 8: AEMO's gas industry fees – Final Budget 2012-13

| Activity | Revenue Requirement \$'000 | Paying Participants |
|--|-------------------------------|---|
| Victorian wholesale gas market | | |
| • Commodity Tariff Fees | 16,940 | Victorian Wholesale Gas Market Participants |
| • Meter Fees | 277 | Victorian Wholesale Gas Market Participants |
| • Participant Compensation Fund - Interest | 193 | Bank interest |
| • Other | 209 | Dependent on service provided |
| FRC | | |
| • Victoria | 3,404 | Victorian Gas Retailers |
| • NSW | 2,641 | NSW Gas Retailers |
| • Queensland | 723 | Queensland Gas Retailers |
| • South Australia | 1,517 | South Australia Gas Retailers |
| Short Term Trading Market | 11,131 | STTM Shippers and Users |
| Gas Statement of Opportunities | 1,747 | Gas Retailer Participants |
| Gas B2B | 196 | Gas B2B Hub Users |
| Gas Bulletin Board | 280 | Bulletin Board Shippers |
| National Gas Emergency Response Advisory Committee | 86 | Federal Government funding |
| Other Revenue | 683 | Dependent on service provided |

Source: AEMO Final Budget 2012-13, Page 7, Table 2. 2012–13 Budgeted Total Revenue Requirement by Function

Utilities Commission, Northern Territory

Licence application fees and the annual licence fee for a particular type of licence are fixed from time to time by the relevant Minister. The fee is an amount that the Minister considers to be a reasonable contribution towards administrative costs.

Electricity licence fees

Table 9: Northern Territory Electricity Supply Industry Licence Fee Schedule (effective from 1 July 2013)

| Activity | Fee |
|-------------------------|---|
| Annual Fees | |
| <i>Retail</i> | |
| • Contestable component | \$8 000 plus \$375 per % share of NT's contestable market |
| <i>Generation</i> | |
| • User of network | \$8 000 plus \$125 per MW of installed capacity |

| Activity | Fee |
|-------------------------------|--|
| <i>Network</i> | \$10 000 plus \$24 per total circuit kilometre |
| • Access regulated networks | \$2 000 |
| • Non regulated networks | \$2 000 |
| <i>System Control</i> | \$3 000 |
| <i>Special licences</i> | |
| • Independent power producers | \$500 |
| • Isolated system operations | \$500 |

Source: http://www.utilicom.nt.gov.au/PMS/Publications/ElecLic_FeesSchedule_July2013.pdf

For the purposes of calculating the fees, market share is calculated by the Utilities Commission on the basis of energy sales data provided by licensees. All energy sales, installed capacity and circuit kilometre data used to calculate an annual fee payable will be based on the information provided by licensees in the latest annual licence return.

Water and sewerage licence fees

Table 10: Northern Territory Water Supply and Sewerage Services Industries Licence Fee Schedule (effective from 1 July 2013)

| Activity | Fee \$ |
|--|-----------|
| Annual Fees | |
| <i>Water supply services</i> | |
| • Larger provider (supplying services in major urban centres and multiple rural and remote licence areas) | 25 000 |
| • Smaller provider (supplying services in a single minor urban centre and/or a small number of rural and remote licence areas) | 1 000 |
| <i>Sewerage supply services</i> | |
| • Larger provider (supplying services in major urban centres and multiple rural and remote licence areas) | 25 000 |
| • Smaller provider (supplying services in a single minor urban centre and/or a small number of rural and remote licence areas) | 1 000 |