



Operating Plan 2009-10

of the
**Office of the
Tasmanian Economic Regulator**

October 2009

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Office of the Tasmanian Economic Regulator

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INTRODUCTION

This Operating Plan is one of the planning tools of the Office of the Tasmanian Economic Regulator (OTTER). It also provides advice to our stakeholders on our activities for the year as can reasonably be foreseen.

Legislation is being drafted to transition the Tasmanian Economic Regulator from a single body to one comprising three members. This body will assume the responsibilities of Director of Gas, Electricity Regulator, Water and Sewerage Economic Regulator and Government Prices Oversight Commission. OTTER will ensure that the transition is smooth and that members will receive the high level of support that has been provided to these statutory bodies to date.

The *Water and Sewerage Industry Act 2008* took effect from 8 July 2008 with responsibility for the economic regulation of the sector being vested in the Regulator. The coming year will see continued development of guidelines and codes to support the new regulatory framework and the transition of the sector towards full cost recovery and consistent pricing arrangements.

The second Water and Sewerage State of the Industry Report will be published in April 2010 and will build upon the base for performance reporting established in the first report. However, it will still focus on the pre-reform environment of 2008-09 as the three new water corporations only commenced operation on 1 July 2009. The Regulator's assessment of the sector's performance will therefore continue to rely on data provided by Tasmania's three bulk water authorities and the 29 local councils.

The present electricity retail price determination for mainland Tasmania expires on 30 June 2010. This means that a retail pricing investigation will be undertaken in 2009 which includes determination of the energy price component of retail tariffs for non-contestable customers.

The Government has yet to make a decision as to whether retail contestability will extend to the final tranche of Tasmanian electricity consumers, or a part thereof. OTTER has assumed in this operating plan that it will have a role in educating further tranches of customers about retail contestability.

OTTER expects to undertake considerable work in amending codes and guidelines in anticipation of the introduction of the National Energy Customer Framework and the transfer of non-economic regulatory functions to national regulatory bodies. OTTER will ensure that there is no duplication in regulatory arrangements and, at the same time, that the present level of protection available to tariff customers is not diminished.

I am confident that OTTER will meet, as always, these challenges and look forward to significant progress and development in the coming year.

Jane Hyland
DIRECTOR

OUR ROLES AND RESPONSIBILITIES

The regulation of the electricity supply industry

In administering the *Electricity Supply Industry Act 1995 (ESI Act)*, the Tasmanian Electricity Code and other related regulatory instruments, the Regulator has a number of key responsibilities:

- the promotion of efficiency and competition in the electricity supply industry;
- the establishment and maintenance of a safe and efficient system of electricity generation, transmission, distribution and retail supply;
- pricing investigations and approvals;
- the establishment and enforcement of proper standards of safety, security, reliability and quality in the electricity supply industry; and
- the protection of the interests of consumers of electricity.

The regulation of the gas supply industry

The *Gas Act 2000* and associated codes establish the procedural and institutional arrangements for a fully contestable gas market. The 'light handed' regulatory approach reflects gas as a new entrant to the market where all customers are already electricity consumers. The Regulator will continue to:

- facilitate the development of a gas supply industry in Tasmania;
- promote efficiency and competition in the gas supply industry; and
- protect the interests of consumers of gas.

Government prices oversight

Under the *Government Prices Oversight Act 1995*, the Regulator (in his role as Government Prices Oversight Commissioner) has the following key roles:

- investigation of the prices charged by certain Government bodies for monopoly services including the recommendation of maximum prices for those services; and
 - investigation of competitive neutrality complaints.
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In addition to performing these key legislative functions, the Regulator undertakes inquiries and consultancy projects at the request of Government.

The economic regulation of the water and sewerage sector

The *Water and Sewerage Industry Act 2008* provides the framework for the economic regulation of the water and sewerage sector, including the establishment of a licensing regime and providing for the regulation of prices, customer service standards and performance monitoring of the sector. In exercising his responsibilities, the Water and Sewerage Economic Regulator must have regard to, among other things:

- relevant health, public safety and environmental obligations;
 - the promotion of efficient long term investment in water and sewerage infrastructure;
 - the promotion of efficient pricing for regulated services;
 - pricing determinations; and
 - maintenance of appropriate service standards.
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THE PLANNING PROCESS

This Operating Plan (and the corporate planning processes that underpin it) is the means by which the Office ensures that its activities are focussed on supporting the Regulator to achieve his objectives.

The corporate planning cycle for the Office aligns with that of the Department of Treasury and Finance with the Office being represented on the Department's Corporate Management Group by the Director. The corporate planning process ensures that the allocation of resources is directed to supporting the Regulator to undertake his statutory functions.

Corporate Planning therefore provides the framework for developing integrated and focused strategies, objectives and work practices for Office staff.

The Department's corporate planning process is illustrated on the next page, although modified to reflect a different stakeholder for this 'branch' of Treasury.

**Regulator's Endorsement
(June)**

The Operating Plan is finalised and endorsed by the Regulator/Commission.

October

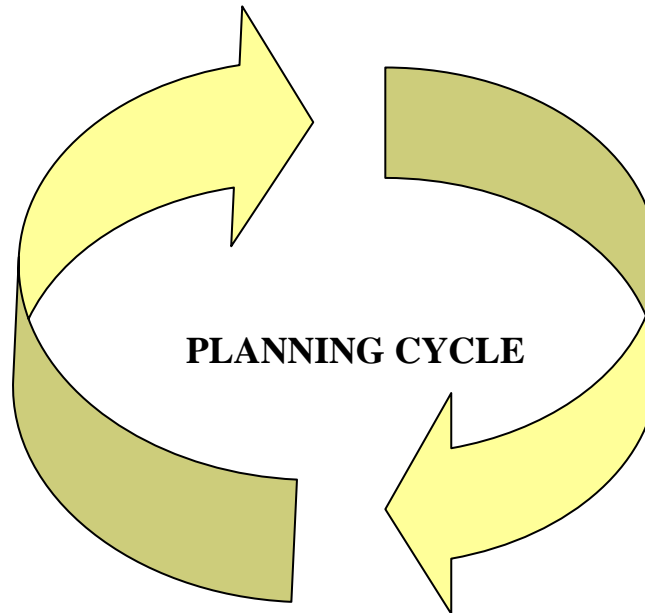
Strategic direction setting for the Department and the Office for the coming year.

**Treasury Branch Planning
(November – December)**

The development of Branch Operating Plans (including that of this Office).

**Review of Office
Operating Plans (May)**

This ensures that the Office's activities remain focused on the achievement of the Regulator/Commission's current objectives and priorities.



**Treasury Endorsement of
Branch Operating Plans
(December)**

Branch Operating Plans are considered in detail. The Office's budget for the coming year is approved.

Budgeted Revenue Requirements

The Regulator's budgeted revenue requirements are notified to licensees in June.

Review of the Corporate Plan

The Office's Operating Plan sets out a number of milestones to be achieved. Progress towards these are monitored by the Regulator.

**Individual Work Plans
(February, July)**

Twice yearly, in February and July, the Office establishes individual work plans for each staff member, based on the Operating Plan.

VALUES

The staff of the Office are employed by the Department of Treasury and Finance which is a values-based organisation. Staff of the Office base their decisions and behaviour on the following values:

- **Integrity** ... as it builds confidence, trust and self respect, and is the foundation of open and honest communication;
 - **Excellence** ... as it challenges us to give our best and brings us recognition;
 - **Respect** ... as it recognises the value of each of us and the contribution we all make;
 - **Passion** ... as it inspires us to achieve great things; and
 - **Camaraderie** ... as it creates a fun and supportive place to be.
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CRITICAL SUCCESS FACTORS

The Office has identified six critical success factors - being those characteristics that are essential for the Office to achieve its objectives and be successful. We aim to ensure that:

- Our output is relevant.
- Our positioning is credible.
- We apply robust analytical frameworks.
- We demonstrate process efficiency.
- Our staff are skilled and understand why they are doing what they do.
- Our staff are engaged with their roles.

OUR STAKEHOLDERS

Our key stakeholders are:

- The Regulator;
- the Treasurer;
- the Minister for Energy; and
- consumers of the services we investigate or regulate.

We also have a very important relationship with the following stakeholders, upon whom our ability to meet our objectives relies:

- our staff;
 - licensed gas and electricity supply entities and water and sewerage corporations;
 - Government Business Enterprises, agencies and local government businesses that are monopoly providers of goods and services;
 - Australian and other state regulatory bodies;
 - representatives of industry and consumer bodies; and
 - consumers.
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STRATEGIC CHALLENGES 2009-10

Through the planning process we have identified a number of key issues or challenges facing us in 2009-10 including:

- supporting a new governance structure for the Tasmanian Economic Regulator board;
 - supporting effective competition for the tranches of contestable electricity customers;
 - providing assurance that the contestable electricity and gas markets work effectively and efficiently to the benefit of customers;
 - keeping abreast of national developments in the regulation of the energy supply industry;
 - transferring relevant regulatory functions to national and State agencies and the associated updating of regulatory instruments;
 - implementing the outcomes of the Government's decision on whether to extend full electricity retail competition in Tasmania;
 - implementing the economic regulatory framework for the water and sewerage sector;
 - education of, and engagement with, the new regional corporations with respect to the water and sewerage regulatory framework;
 - providing advice on interim pricing arrangements for the water and sewerage sector; and
 - engagement with agencies and Government in the context of an election.
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KEY INITIATIVES AND TASKS IN 2009-10

Our key initiatives and tasks in 2009-10 are focused on assisting the Tasmanian Economic Regulator to achieve its objectives. These tasks are listed below, with the general timeframes in which the tasks will be undertaken and the team from within the Office that has been allocated responsibility for managing each task.

SPM = Service and Performance Monitoring team

Pricing = Pricing team

CLC = Codes, Licences and Compliance team

KEY INITIATIVE OR TASK	RESPONSIBILITY	TIMEFRAME
Issue revised Gas Codes.	CLC	July 2009
Revise the consultation policy and procedures of the Tasmanian Economic Regulator.	SPM	August 2009
Approve pro- forma fallback contract and pricing proposal for Tranche 4 customers.	CLC	August 2009
Assess applications from Aurora Energy for GSL payment exemptions	CLC	As required
Prepare and publish a comparison of distribution charges and retail tariffs of standing offer contracts across Australia.	SPM	August 2009
Prepare annual reports for GPOC and OTTER 2009-10.	ADMIN	August to October 2009

KEY INITIATIVE OR TASK	RESPONSIBILITY	TIMEFRAME
Determine whether to declare raise contingency frequency control ancillary services (FCAS) as declared electrical services.	Pricing	October 2009
Investigate the pricing policies for raise contingency FCAS, if declared.	Pricing	October 2009 to March 2010
Review of Aurora Pay As You Go.	Pricing	September to November 2009
Investigate prices for retail tariffs on mainland Tasmania.	Pricing	November to April 2010
Review GSL Guideline.	CLC	December 2009
Publish a comprehensive report on the performance in 2008-09 of the energy supply industry.	SPM	December 2009
Review and publish a report on the reliability of the Tasmanian power system (Reliability Review).	SPM	December 2009
Review Aurora Energy's regulatory accounts.	Pricing	December 2009
Develop a performance reporting guideline for the water and sewerage sector.	SPM	December 2009
Develop a customer service code for the water and sewerage sector.	SPM	December 2009
Amend the Tasmanian Electricity Code to provide for a new Code change process and other matters.	CLC	November 2009
Review water and sewerage interim pricing arrangements.	Pricing	April 2010

KEY INITIATIVE OR TASK	RESPONSIBILITY	TIMEFRAME
Review and report on the performance of the water and sewerage sector (State of the Industry Report).	SPM	April 2010
Institute processes and procedures to support a new governance model for the Tasmanian Economic Regulator.	ADMIN	March 2010
Make a determination of retail tariffs for mainland Tasmania.	Pricing	May 2010
Develop price and service guidelines for the water and sewerage sector.	SPM	June 2010
Review Regulatory Reporting Guideline.	SPM	June 2010
Review management and/or compliance plans of Hydro Tasmania, Transend Networks and Tasmanian gas pipeline operator.	SPM	June 2010
Develop ringfencing guidelines for the water and sewerage sector.	SPM	June 2010
Amend codes and guidelines in preparation for the introduction of the National Energy Customer Framework.	CLC	June 2010
Approve retail and network tariffs for 2010-11.	Pricing	June 2010
Subject to amendments to the Regulations, approve or publish default retail support, retail supply and distribution contracts.	CLC	June 2010
Assess licence applications and amendment requests.	CLC	As required
Assist the jurisdiction for the transfer of relevant regulatory functions to national institutions and in determining the future of residual regulatory	OTTER	Throughout 2009-10

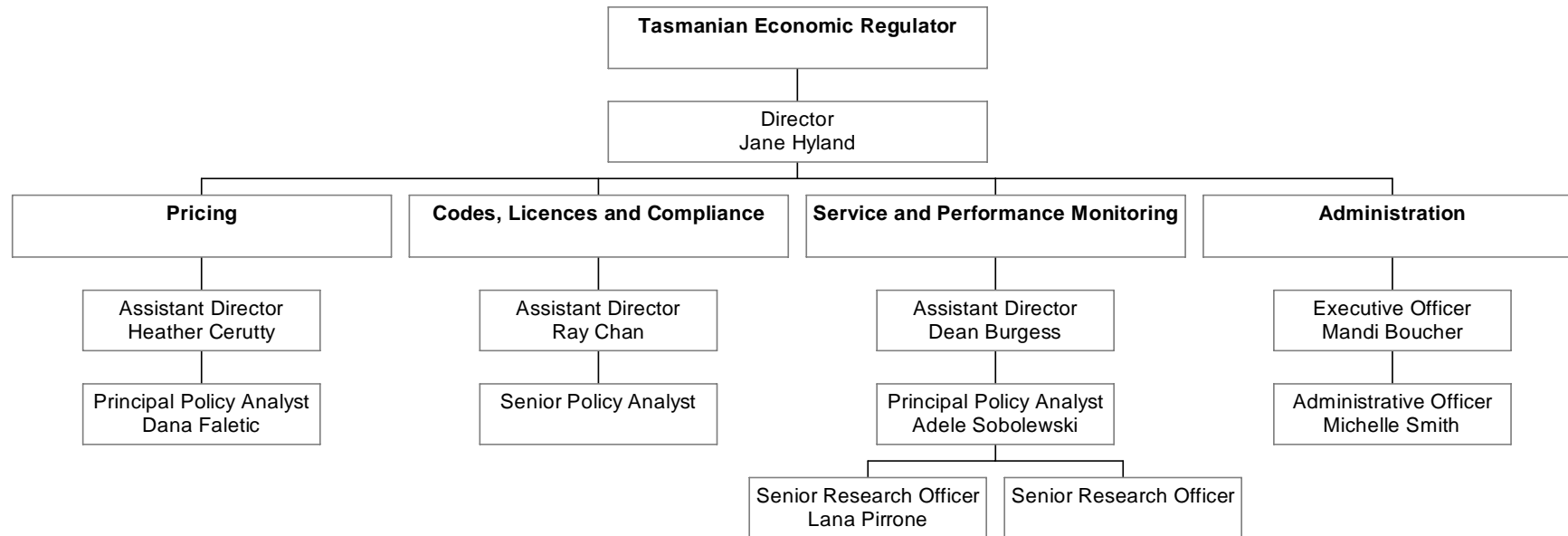
KEY INITIATIVE OR TASK	RESPONSIBILITY	TIMEFRAME
functions.		
Determine customer contestability status.	CLC	As required.
Undertake activities associated with the roll out of retail contestability to Tranche 4 customers including customer education.	ADMIN	October 2009 to June 2010
Prepare and publish a report that compares Aurora Pay as You Go prices and standard tariffs.	SPM	June 2010
Assist the jurisdiction in developing contractual models and amending regulations concerning contestable customers.	CLC	Throughout 2009-10

STANDARD TASKS 2009-10

The following standard tasks and projects assist the Regulator to achieve its objectives:

- administration of the licensing system for electricity/gas entities – generation, transmission, distribution and retail;
 - the issue, maintenance and enforcement of the Tasmanian Electricity Code;
 - establishment, monitoring and publication of standards and codes;
 - development and publication of guidelines;
 - the exercise of the powers and functions of the jurisdictional regulator in respect of Tasmania under the National Electricity Rules;
 - provision of advice to the jurisdiction;
 - provision of support to the OTTER Customer Consultative Committee;
 - participation in national and intra-jurisdictional working groups and committees;
 - monitoring and enforcing compliance with the legislation, codes and licence obligations;
 - collection of information and statistics, publishing reports and disseminating information relating to the performance of the industry;
 - review of quarterly annual performance reports and returns;
 - review of the outcomes of independent appraisals of management plans and monitoring the implementation of recommendations;
 - review of management plans, compliance plans, incident reports and annual planning documents;
 - conducting investigations into complaints of breaches of the national competition policy competitive neutrality principles;
 - determining gas and electricity licence fees and recovery of investigation costs;
 - publication of *OTTER Events* and provision of input to the Treasury annual report and other publications;
 - website management; and
 - reception, records management, library management, invoicing, payments and other Office administrative duties.
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ORGANISATIONAL STRUCTURE



As at 30 September 2009
