

Electricity Reform Project

Governance Arrangements

July 2012

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I. Introduction

Project Background

In 2010, the Parliament established an independent Expert Panel to review the Tasmanian electricity supply industry. The Panel provided its final report to the Treasurer and Minister for Energy and Resources on 29 March 2012. The final report was tabled in Parliament by the Treasurer on the same day.

The Government announced its response to the Panel's report on 15 May 2012, agreeing with almost all of the Panel's conclusions relating to issues in the industry and the areas that require reform. The priority areas are:

- competition arrangements in the retail market;
- regulatory or structural reform of the wholesale market:
- the method used to set the regulatory allowance for wholesale electricity purchasing for non-contestable customers;
- the financial performance and market situation of the Tamar Valley Power Station;
- Hydro Tasmania's mainland growth strategy; and
- structural reform of the network businesses.

The following four objectives for electricity policy in Tasmania have been adopted by the Government:

- lowest sustainable electricity bills;
- long-term safe, secure and reliable supplies of electricity;
- maximize the value of Tasmania's low carbon advantage and the brand benefits of clean Tasmanian electricity; and
- financially viable State-owned electricity businesses (SOEBs) that run efficiently and effectively and maximize the overall economic benefit to Tasmania.

An integrated reform package has been developed by the Government and is summarised in *Energy for the Future*.

Purpose of this Document

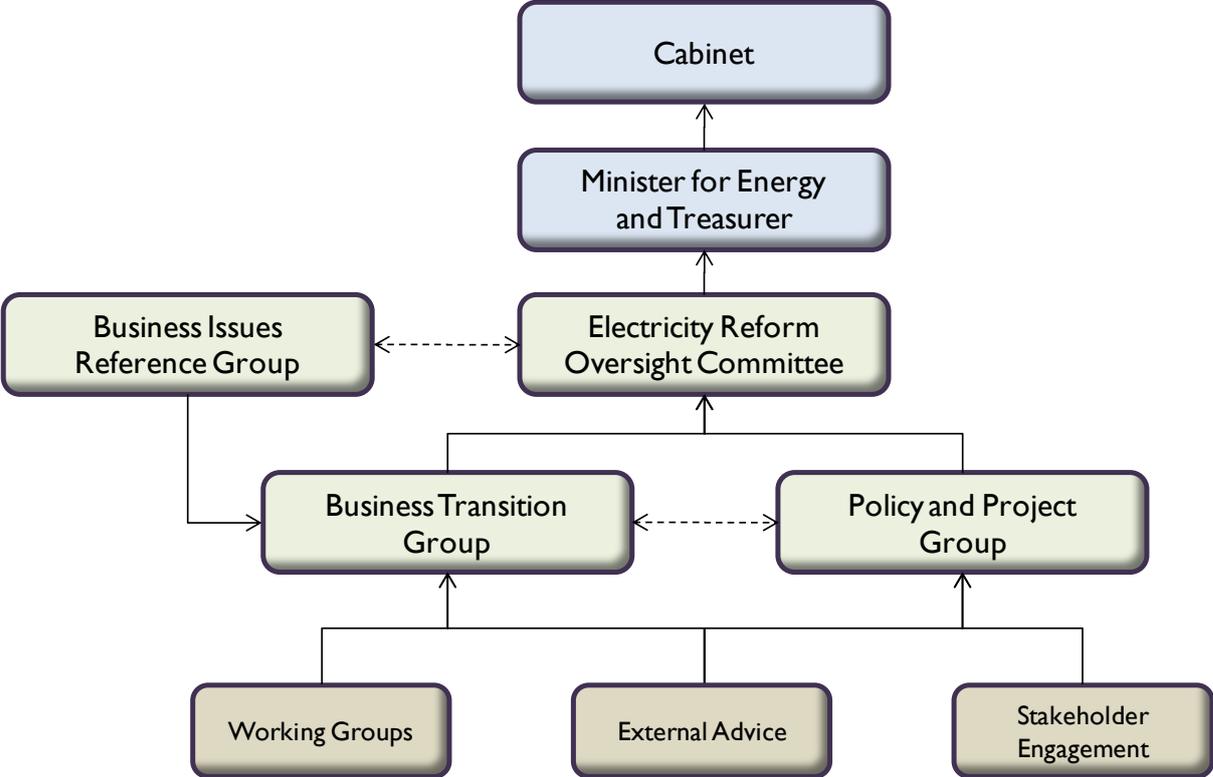
This paper provides an overview of the governance arrangements that have been established to implement the Government's electricity reforms including:

- the organisational structure, accountabilities and Terms of References;
- a high level view of the proposed timeframe to implement the reforms; and
- a high level description of the various project streams.

2. Project Governance

The process of identifying and implementing the changes contemplated in the project is relatively complex. This complexity is mainly created by further policy decisions which need to be made, the design of workable market and regulatory arrangements, the difficulties associated with business restructuring and transition and stakeholder engagement.

The high level governance framework for the reform process is outlined below.



The Electricity Reform Oversight Committee comprises of the Secretaries of the Departments of Treasury and Finance (Chair), Premier and Cabinet and Infrastructure, Energy and Resources.

While the Electricity Reform Oversight Committee has oversight of the project, the work streams are managed by two separate groups - the Policy and Project Group and the Business Transition Group. A further group, the Business Issues Reference Group forms the final component of the overall governance arrangements.

The Policy and Project Group and Business Transition Group are responsible for the timely and efficient implementation of the electricity reform agenda under the guidance of the Electricity Reform Oversight Committee.

The Policy and Project Group has responsibility for policy, shareholding, regulatory design, legislation. preparing transfer notices, financial structuring, sale of assets, overall project governance and communications.

The Business Transition Group has responsibility for the detailed implementation of the reforms within the State-owned electricity businesses and accompanying processes, including the restructuring of the businesses, preparing for the sale or transfer of assets and employees, transition of IT systems, resolution of commercial issues and contract development

The Business Issues Reference Group comprises the Secretary of Treasury, the CEO of the Business Transition Group, Executive Director of the Policy and Project Group and the CEOs of Aurora Energy, Hydro Tasmania and Transend Networks. This Group will review business transition elements of the project, ensuring commitment from the electricity businesses, and would consider any problems which may be escalated to this level.

The Terms of Reference and responsibilities of each of the parties are included in Appendix I.

Working groups may need to be convened under each project work stream, to enable the tasks to be achieved efficiently while involving the right people and skills. These will be established on an as required basis.

3. Work Streams

The project comprises nine separate work streams which are interrelated to varying degrees. The work streams and the overall objective of each are detailed below.

1. **Scope and Sale/Transfer of AETV Assets** - to deliver the optimal ownership structure of AETV assets either by way of transfer to Hydro Tasmania, or through divestment of these assets.
2. **Price Regulation** - to develop and implement a regulatory regime for Hydro Tasmania's contract offers in the Tasmanian electricity market and a regulatory framework for standing offer prices under full retail competition.
3. **Retail Competition Phase I** - to ensure that the necessary policy and regulatory framework is in place to support mass market contestability in a timely manner.
4. **Retail Divestment** - to divest Aurora Energy's retail customer base before introducing full retail contestability in Tasmania.
5. **Retail Asset and Resource Integration** - to deliver a retail electricity business structure that will maximize the value of retail assets currently owned by State-owned electricity businesses, consistent with the agreed growth objectives and strategy of Hydro Tasmania's retail arm Momentum Energy.
6. **Network Integration** - to deliver an integrated Tasmanian Network business.
7. **Electricity Legislation** - to put in place legislation to facilitate the electricity reforms.
8. **Communications and Stakeholder Engagement** - to communicate project objectives, progress and impacts of the reforms to key stakeholders, including communicating the impacts of the reforms on and to electricity customers and the public.
9. **Close out of Residual Business Structures and Assets** - to close out all residual business structures at the end of the reforms and ensure all obligations and assets of these structures are appropriately dealt with.

In addition to the work streams, each of the State-owned electricity businesses will have a significant number of tasks to complete as part of the reform project. These tasks include issues such as business planning, systems issues and staffing issues.

4. Project Timeline

The main elements of the project timeframe are defined by the Government's announced objectives. The following diagram depicts the timeframe for each of the nine work streams.

	30 Jun 12		30 Jun 13		30 Jun 14	
AETV		→ Sale or Transfer				
Price Regulation		→ Regulatory Arrangements in Place				
Retail Competition		→ Full Retail Competition Commences				
Retail Divestment		→ Sale Announcement				
Retail Integration		→ Transfers Complete				
Network Integration		→ Merged Business commences operation				
Legislation		→ Legislation in Place				
Stakeholder Engagement		→ FRC Communication Complete				
Close out		→ Project Complete				

5. Further Information

Policy and Project Group:

Phone: (03) 6233 3689

Business Transition Group

Phone: (03) 6233 8531

Website: www.electricity.tas.gov.au

Email: electricity.reform@treasury.tas.gov.au

Appendix I - Terms of Reference

Terms of Reference for the Electricity Reform Oversight Committee and the Business Issues Reference Group are attached.

Purpose and Responsibilities for the Policy and Project Group and the Business Transition Group are also attached.

Electricity Reform Oversight Committee

Terms of Reference

1. Establishment

The Committee has been established under the authority of Cabinet and the Treasurer's decision dated 4 June 2012.

2. Overall Purpose

To provide advice to the Minister for Energy and Resources and the Treasurer on the implementation of the Government's integrated energy reform package in accordance with the Key Milestones outlined in these Terms of Reference.

3. Members

Mr Martin Wallace	Secretary, Department of Treasury and Finance (Chair)
Mr Rhys Edwards	Secretary, Department of Premier and Cabinet
Mr Norm McIlfratrick	Secretary, Department of Infrastructure, Energy and Resources

4. Responsibilities

The Committee will lead, oversee and provide overall direction to the implementation and delivery of the electricity reform project, and in particular:

- provide strategic guidance to the Policy and Project Group (PPG) and Business Transition Group (BTG) to ensure that the Government's energy reform package is implemented within the required timeframes;
- take responsibility for any whole-of-Government issues to ensure that the overall electricity business portfolio is optimised and best meets the Government's electricity policy objectives.
- identify barriers and risks in the implementation of the energy reform package and provide guidance to the project teams on the likely effectiveness of their proposed solutions and/or strategies to manage those risks;
- sign off on key policy matters or escalate key policy matters to the Treasurer and/or Minister for Energy and Resources for decision where required;
- refer important issues identified by the BTG to the Business Issues Reference Group (BIRG) for consideration;
- consider and resolve issues that have been escalated for discussion or decision by the BTG, BIRG and by stakeholders;

- determine timeframes, milestones and work programs and track progress against the achievement of key outcomes;
- support the PPG and the BTG in their activities, including stakeholder engagement and overall project risk management;
- provide regular advice to the Treasurer and Minister for Energy on progress with implementing the reform package.

5. Key Milestones

Date	Milestone
1 January 2013	Confirm transfer of Tamar Valley Power Station to Hydro Tasmania, or commence sale process.
1 January 2013	Complete scoping study for customer tranche sale and commence divestment process.
1 July 2013	Commence regulating Hydro Tasmania's wholesale contracts.
Before 1 January 2014	Complete transfer of customers to new retailers.
1 January 2014	Commence full retail competition.
1 January 2014	Commence price regulation of standing offer contracts.
1 July 2014	Merge Aurora retail services functions with Momentum's functions; new Tasmanian retailers responsible for servicing their own customers.
1 July 2014	Aurora distribution and Transend commence operating as a fully integrated business.

6. Meeting Arrangements

Frequency of meetings

The Committee will meet on a monthly basis

Date/time of meetings

Meetings will be held monthly

Venue of meetings

Murray Room, Department of Treasury and Finance

Documentation

A record of each meeting will be kept, including a statement of actions and responsibilities, and record of decisions.

The Minutes and Action Sheets of each meeting will usually be circulated to all members within seven working days of the meeting.

7. Secretariat Support

Secretariat support for the Committee will be provided by the Policy and Project Group. The secretariat function includes circulating agenda/papers for upcoming meetings (via email) with at least three business days' notice to ensure members of the Committee have adequate time to prepare for meetings.

8. Consultation

In progressing the reforms, the Committee may consult with the Government's electricity businesses, the Tasmanian Economic Regulator, national regulatory bodies and other parties as appropriate.

9. Appointment of Advisers

Given the complex nature of the issues to be considered by the Committee, the Committee may appoint external advisers to provide technical advice as required.

10. Funding

The costs of the Committee's work program, including the appointment of external advisers, are to be met from within the Department of Treasury and Finance's 2012-13 Budget allocation.

11. Reporting

The Committee is to report to the Treasurer and Minister for Energy.

Business Issues Reference Group

Terms of Reference

1. Establishment

The Reference Group has been established under the authority of Cabinet and the Treasurer's decision dated 4 June 2012.

2. Overall Purpose

To provide a high level forum for the businesses to consider and resolve material implementation issues that impact on two or more of the businesses emerging from the work of the Business Transition Group and Policy and Projects Group.

3. Members

Mr Martin Wallace	Secretary, Department of Treasury and Finance (Chair)
Mr Michael Brewster	CEO, Business Transition Group
Mr Richard Sulikowski	Executive Director, Policy and Project Group
Mr Peter Davis	CEO, Aurora Energy
Mr Roy Adair	CEO, Hydro Tasmania
Mr Peter Clark	CEO, Transend Networks

4. Responsibilities

The Reference Group will ensure that there is a coordinated approach to responding to transitional and implementation issues in particular:

- support the overall electricity reform project, including the commitment to the provision of resources to deliver the Government's reform objectives;
- resolve, where possible, implementation priorities and other relevant issues which are escalated to this level;
- through the Chair, liaise with the EROC on issues of mutual concern and any issues that cannot be resolved by the BIRG;
- support the Business Transition Group and the Policy and Projects Group to achieve the Government's overall electricity reform objectives; and
- be a conduit for the views of the management of the electricity entities on transitional and other reform issues to be communicated to EROC through the BTG;

- enable the views of the management of the electricity entities on transitional issues affecting two or more businesses to be discussed and offer the CEO of the BTG advice on possible solutions.

The minutes of meetings will be provided to EROC.

5. Meeting Arrangements

Frequency of meetings

The Reference Group will initially meet on a monthly basis

Date/time of meetings

Meetings will normally be scheduled before EROC meetings

Venue of meetings

Murray Room, Department of Treasury and Finance

Documentation

A record of each meeting will be kept, including a statement of actions and responsibilities, and record of decisions.

The Minutes and Action Sheets of each meeting will usually be circulated to all members within seven working days of the meeting.

6. Secretariat Support

Secretariat support for the Reference Group will be provided by the Business Transition Group. The secretariat function includes circulating agenda/papers for upcoming meetings (via email) with at least three business days' notice to ensure members of the Reference Group have adequate time to prepare for meetings.

Policy and Projects Group

Purpose and Responsibilities

1. Overall Purpose

To provide policy advice and recommendations to the Electricity Reform Oversight Committee on the detailed market, regulatory and competition design aspects of the Government's electricity reforms, as well as overall project governance support and coordination.

2. Key Responsibilities

The PPG is responsible for the following high-level aspects of the electricity reform project:

- *Project governance* – supporting the Electricity Reform Oversight Committee to ensure that the key milestones of the reform project are met within required timeframes;
- *Market design and policy* – designing the market aspects of the Government's reform package, including full retail competition and the sale or transfer of the Tamar Valley Power Station;
- *Regulatory design (wholesale and retail)* – designing the regulatory arrangements to regulate Hydro Tasmania's activities in the Tasmanian wholesale market; designing the regulatory framework for full retail competition, including fallback and customer protection arrangements and transitional retail price regulatory arrangements;
- *Legislation* – managing the preparation of all primary and subordinate legislation relating to the reform project and supporting the passage of this legislation through the Parliament;
- *Financial structuring* – ensuring that the State's portfolio of electricity businesses have appropriate balance sheets (capital structures) and risk profiles to operate in the National Electricity Market;
- *Shareholder advice* – providing advice to the Treasurer and Minister for Energy and Resources, in their capacity as Shareholding Ministers of the State's electricity businesses, on issues identified during the course of the reform project;
- *Scoping studies* – initiating and managing scoping studies, consistent with the PPG's responsibilities;
- *Legal and commercial advice* – appointing legal and commercial advisors where necessary, managing these advisors and facilitating legal advice for the BTG;
- *Communications* – communicating, on PPG responsibilities, to keep key stakeholders informed of the reform package, including the State's electricity businesses, regulatory bodies, retailers, including the ERAA and industry groups and unions; communicating the Government's reform package to the general public;

- *Transfers and sales* – managing the transfer and/or sale of assets necessary to give effect to the reforms; and
- *Co-ordination* – facilitate regular co-ordination meetings between the BTG and PPG groups.

3. Reporting and Procedures

The PPG will report progress to the Electricity Reform Oversight Committee and will:

- determine procedures including confidentiality requirements;
- document and retain records in good working order;
- convene working groups to assist in achieving its objectives; and
- raise issues for consideration by EROC and with EROC's endorsement undertake actions as necessary.

Business Transition Group

Purpose and Responsibilities

1. Overall Purpose

To support the Electricity Reform Oversight Committee in implementing the Government's electricity reforms by undertaking the detailed business transition work necessary to implement the reforms.

2. Key Responsibilities

The BTG is responsible for the following high-level aspects of the electricity reform project:

- *People and positions* – transitioning employees of the State's electricity businesses that are affected by the reforms, including the transfer of employees between the businesses where required; ensure that affected employees are treated with respect and fairness during the reform process, including communication of developments during the reform process;
- *Systems* – managing the transition and development of the necessary systems to support the reforms, including the IT systems necessary to support full retail competition;
- *Project Management Services* – provide project management services to the PPG and BTG staff;
- *Preparation for asset transfers* – making the necessary arrangements to prepare assets of the State's electricity businesses for transfer, where required;
- *Business continuity* – ensuring that business continuity is maintained in the State's electricity businesses during implementation of the reforms;
- *Business communications* – managing communications between the State's electricity businesses to ensure that the reforms are implemented efficiently and effectively;
- *Commercial/contract issues* – resolving any commercial issues identified during implementation of the reforms; managing the transition of contractual arrangements affected by the reforms;
- *Retail transition* – managing the transition of the retail operations of the State's electricity businesses to the new business structures that result from the reforms;
- *AETV transition* – managing the transition of AETV to the new business structures that result from the reforms;
- *Network integration* – providing options and recommendations for facilitating the network merger and making the necessary arrangements to give effect to the merger.

3. Reporting and Procedures

The BTG will report progress to the Electricity Reform Oversight Committee and will:

- Determine relevant procedures as they pertain specifically to their responsibilities whilst adopting common whole of project procedures developed by PPG;
- Document and retain records in good working order;
- Convene working groups as necessary to facilitate achieving its objectives; and
- Raise issues for consideration for EROC and with EROC's endorsement undertake actions as necessary.