

# ANNUAL REPORT

*2012/13*

September 2013



This Annual Report is submitted to the Treasurer, the Hon J Weatherill, MP, in accordance with Section 39 of the Essential Services Commission Act 2002. This is the eleventh Annual Report of the Essential Services Commission, which was established in September 2002.

Enquiries concerning this Annual Report should be addressed to:

Essential Services Commission of South Australia  
GPO Box 2605  
Adelaide SA 5001

Telephone: (08) 8463 4444  
Freecall: 1800 633 592 (SA and mobiles only)  
E-mail: [escosa@escosa.sa.gov.au](mailto:escosa@escosa.sa.gov.au)  
Web: [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au)

The Essential Services Commission of South Australia is the independent economic regulator of the electricity, gas, ports, rail and water industries in South Australia. The Commission's primary objective is the *protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services*. For more information, please visit [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au).

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## CHAIRPERSON'S OVERVIEW

I have pleasure in presenting the Annual Report for the Essential Services Commission for the year ending 30 June 2013.

During 2012/13 the Commission again completed an extensive regulatory program across a range of industry sectors. The year saw significant transition in the energy retail sector and the commencement of the Commission's new function of economic regulator in the water sector.

The Water Industry Act 2012 confers on the Commission a wide range of new roles in the water sector, including price regulation, licensing, consumer protection and performance monitoring. These roles commenced in a staged manner during 2012/13. SA Water was naturally a major focus of this work, but numerous other providers of water and sewerage services (e.g. local Government) have also been brought under the new regulatory regime.

The Commission welcomes both the de-regulation of energy retail prices and the commencement of the National Energy Customer Framework in South Australia as demonstrating the increasing maturity of the energy retail market in this State and as being likely to confer additional benefits on consumers.

The work of the Commission in 2012/13 has highlighted the importance of effective consultation processes with all members of the community – including consumers and consumer groups, regulated businesses and industry groups, Ministers and Government agencies – in the conduct of the Commission's economic regulatory work. This has been a major focus for the Commission over the past year and will continue to be so in the future.

The Commission again recognises the contribution to regulatory practice provided by its Consumer Advisory Committee and expresses its gratitude to members for their ongoing commitment.

The appointment as Commissioner of Emeritus Professor Richard Blandy expired on 30 June 2013. Dick has been a Commissioner since March 2004. Commissioners John Hill, Barbara Rajkowska and myself, together with the staff of the Commission thank Dick for his significant contribution to the work of the Commission, both through his insights into the economic issues confronting the Commission, the passion that he brought to Commission debates, and his humour.

I thank all Commissioners for their contribution to the work of the Commission during 2012/13. I also thank Paul Kerin for his leadership of the staff of the Commission as Chief Executive Officer during the year. Paul continues to bring intellectual drive and organisational capacity to the work of the Commission.

The Commission acknowledges the commitment, professionalism and skills of its staff, and their significant achievements during 2012/13. The Commission takes pride in the quality of its decisions, which reflect the professional and innovative approach of staff to their work.



Patrick J Walsh  
Chairperson

# CHIEF EXECUTIVE OFFICER'S ANNUAL REVIEW

The 2012/13 financial year was my second with the Commission. It was a year of achievements and change.

## *Regulatory*

In 2012/13, the Commission took up its new role as the independent economic regulator of water and sewerage retail services within the water industry, following the passage of the Water Industry Act. As the Commission had anticipated this new role, it had made good progress in developing a water industry regulatory framework during 2011/12. The prime focus of the Commission's work in 2012/13 was on finalising and successfully implementing the new framework. This involved much public consultation.

By the end of 2012/13, the Commission had:

- ▲ Introduced a water industry licencing system and issued licences to 57 water and sewerage retail service providers;
- ▲ Established a comprehensive water industry consumer protection framework, covering billing, flexible payment arrangements, limitations on water and sewerage restrictions and disconnections and access to independent dispute resolution – including the right for consumers to make complaints about water businesses to the Energy and Water Ombudsman SA;
- ▲ Made its first Price Determination for SA Water. The Commission cut \$149 million (10.3%) in operating expenditures and \$169 million (14.4%) in capital expenditures from SA Water's three year Regulatory Business Proposal. This Commission's Price Determination resulted in consumers enjoying real price reductions of over 7.8% for drinking water and 0.9% for sewerage from 1 July 2013; and
- ▲ Made its first Price Determination for all other water and sewerage retail service providers, which introduced a relatively light-handed pricing principles and price monitoring framework. This framework will provide greater transparency regarding the price-setting processes of smaller retailers.

While the Commission had planned to be less active in the energy retail sector in 2012/13, it was much more active than expected, for two reasons.

First, the passing of legislative amendments required to enable the implementation of the National Energy Customer Framework and the associated transfer of responsibilities for certain energy retail regulatory functions from the Commission to the Australian Energy Regulator was delayed. As a result, the Commission had to continue to perform those functions for the first seven months of 2012/13. Upon implementation of National Energy Customer Framework, the transfer of those functions to the Australian Energy Regulator proceeded smoothly.

Second, given apparent movements in electricity wholesale costs and market liquidity, the Commission decided to conduct a Wholesale Electricity Cost Review, in the long-run interests of consumers. As a result of the Wholesale Electricity Cost Review, the Commission decided that a significant reduction in wholesale costs warranted a variation to its electricity Standing Contract Price Determination. In October 2012, the Commission released its Draft Determination, which would have reduced electricity Standing Contract prices by 8.1% for all residential and small business customers. This would have saved typical residential customer \$160 per annum.

In December 2012, the SA Government announced its decision to deregulate energy retail prices, as well as its related agreements with AGL and Origin to make Standing Offers with prices below the then-existing Standing Contract prices. AGL's residential electricity Standing Offer prices were 9.1% below the former Standing Contract prices for former Standing Contract customers and those who took up the Standing Offer prior to 1 February 2013. AGL's electricity Standing Offer prices were 4.5% below the former Standing Contract prices for all small business customers, as well as new residential customers who took up the Standing Offer on or after 1 February 2013. Origin's gas Standing Offer prices were 1.0% below the former Standing Contract prices.

The Commission played an instrumental role in achieving these price reductions, as the 8.1% reduction in electricity Standing Contract prices flagged in its Draft Determination provided the SA Government with the bargaining power to negotiate significant price reductions from AGL and Origin.

While the Commission no longer conducts certain energy retail functions, it retains responsibility for the administration of the Residential Energy Efficiency Scheme and its price regulation role in relation to the solar photovoltaic Feed-in Tariff premium paid by retailers. In addition, following the SA Government's December 2012 decision to deregulate energy retail prices, the Commission gained a new price monitoring role.

The Commission also retains its various energy network regulatory roles, as well as its ongoing pricing and access responsibilities in ports and rail.

The work of the Commission in 2012/13 highlighted the importance of effective consultation processes with all members of the community – including consumers and consumer groups, regulated businesses and industry groups, Ministers and Government agencies – in the conduct of the Commission's economic regulatory work. This has been a major focus for the Commission over the past year and will continue to be so in the future.

## *Financial*

The Financial Performance section of this year's annual report is particularly important and is quite different to those of previous years, as the Commission believes that it is important to outline key improvements made in its financial management, explain the impact of Government accounting policies on reported expenses and highlight emerging structural funding problems that will need to be addressed.

The Commission strengthened its financial management substantially in 2012/13. Two key areas in which improvements were made were retained earnings management and expense budgeting. As a result, the Commission was able to reduce retained earnings by returning substantial funds to the SA Government, reduce its expense budget and keep actual expenses in-line with budget, despite considerable unbudgeted cost pressures.

While the Commission's reported expenses appeared to rise significantly in 2012/13, this was largely due to Government accounting policies that required certain items (including the Commission's returns of substantial funds to the SA Government) be treated as expenses. Those items were largely responsible for the Commission reporting a net deficit in 2012/13.

Looking forward, the Commission is concerned about two "structural" funding problems that emerged during 2012/13 due to factors outside of its control. As these factors have generated ongoing expense burdens and revenue reductions, the Commission expects to continue to run at an overall net deficit each year in the foreseeable future. As a result, the Commission expects that the Treasurer will need to approve further reductions in retained earnings. While the Commission can sustain running overall net deficits for several years to come, this is not sustainable in the longer-term.

Of particular concern is that, despite the Commission's careful expense management, these factors have caused the Commission to run significant net deficits in both its energy retail activities and its water activities. Such sectoral net deficits are not sustainable and must be addressed in the near-term.

The Commission has informed the Treasurer of these important structural funding problems and proposed alternative solutions, which the Treasurer is considering.

## *Acknowledgements*

On behalf of the Commission and all Commission staff, I thank the many members of the South Australian community, including consumers and regulated entities, who engaged with the Commission during 2012/13 through its day-to-day regulatory work and/or through its wide-ranging public consultations on various inquiries, reviews and price determination processes. The Commission remains committed to transparency and open consultation as essential elements of good regulatory practice.

I also thank the Consumer Advisory Committee, the Australian Energy Market Operator, the Energy and Water Industry Ombudsman (SA) Ltd and the Office of the Technical Regulator all of whom provided significant advice and support to the Commission during 2012/13.

Finally, I thank all Commissioners and staff for their excellent work, commitment and focus on achieving our primary objective – the protection of the long-term interests of consumers.



Paul Kerin  
Chief Executive Officer



## PERFORMANCE AGAINST STRATEGIC PLAN

The Commission's Strategic Plan 2012-2015 established four key goals and associated work programs to guide the Commission's activities during the planning period. The 2012/13 Performance Plan outlined the manner in which the Commission would pursue its goals and undertake its functions in 2012/13. The Commission's achievements against these four key goals are summarised below.

### *Goal 1: Consumers receive essential services of appropriate reliability and quality*

KEY INITIATIVE	ACHIEVEMENT
Issue water industry licences, including to SA Water	Completed - 57 licences issued and 1 exemption; 9 applications currently under consideration.
Develop service standards	Completed for Minor and Intermediate retailers. In progress for SA Water - initial service standards developed, currently being revised.
Provide input into development of 2011/12 National Performance Report, through gathering and auditing performance data supplied by SA Water	Completed – audit undertaken and provided to National Water Commission in October 2012.
Administer the new water consumer protection framework	Completed – consumer protection framework released in January 2013. Administration is ongoing.
Conduct 'pre-compliance' audits for major water and wastewater businesses	Deferred to 2013/14, due to delayed passage of the Water Industry Act.
Develop compliance and performance reporting regimes to apply to licensees	Completed for minor and intermediate retailers and will be completed for SA Water in early 2013/14.
Develop water regulatory data capture and reporting systems	In progress – deferred due to delayed passage of the Water Industry Act.
Review appropriate licensing arrangements for the retailing and distribution of LPG	Completed – licence regime implemented requiring all distributors and retailers of reticulated LPG to be licenced; 3 licence applications received.
Review statement of principles for wind generation licensing	On hold - as the Australian Energy Market Operator is undertaking a similar review; the Commission will review its findings.
Review connection arrangements for large scale renewable generation	On hold – as the Australian Energy Market Operator is undertaking a similar review; the Commission will review its findings.
Review service standards for SA Power Networks for 2015-20 regulatory period	In progress and on track to complete in 2013/14.
Continue the targeted audit program for Residential Energy Efficiency Scheme to ensure compliance with activities specifications and requirements	Ongoing - audits undertaken in response to a small number of issues identified.

### *Goal 2: Consumers pay the lowest sustainable prices*

KEY INITIATIVE	ACHIEVEMENT
Review and determine SA Water's drinking water and sewerage prices to apply from 1 July 2013	Completed – resulted in real price reductions of 7.8% (water) and 0.9% (sewerage)
Implement framework for price regulation of licensees other than SA Water, should price regulation be considered appropriate	Completed - Minor and intermediate water retailers framework finalised and published. Implementation underway
Undertake study of economic efficiency of SA Water relative to other comparable water utilities	Completed - the resulting report, Top down efficiency review of SA Water, was published as a part of the Commission's Revenue Determination for SA Water. This helped the Commission cut \$148.8 million (10.3%) in operating expenditures and \$169.2 million (16.9%) in capital expenditures from SA Water's three year Regulatory Business Proposal
Finalise the review of the ports access and pricing regime for the next 5-year regulatory period commencing on 31 October 2012	Completed – released in October 2012
Review wholesale electricity costs	Commenced and Draft Determination made in October 2012, proposed reducing Standing Contract prices by 8.1%, saving the average household \$160 (inc GST) per annum. Final Determination not made, due to SA Government December 2012 decision to deregulate the electricity retail prices.
Undertake water metering cost benefit analysis	Completed – released in June 2013
Undertake water pricing reform inquiry	In progress - inquiry commenced and on track to be completed in 2014/15 in accordance with terms of inquiry timeframe



### Goal 3: Stakeholders trust us

KEY INITIATIVE	ACHIEVEMENT
Engage with consumers, policy makers, local councils, SA Water and other stakeholders to understand and contribute to the smooth transition to independent economic regulation of water	Achieved - extensive collaboration undertaken with all stakeholders
Work with the Australian Energy Regulator, Department of Manufacturing, Innovation, Trade, Resource and Energy (SA) and other jurisdictional regulators to ensure a smooth transition from state regulation to the National Energy Customer Framework	Completed – successful transition to National Energy Customer Framework on 1 February 2013; review and update of regulatory instruments underway, on track for completion in early 2013/14
Prepare, publish and distribute Power Line Environment Committee Annual Report	Completed – released in October 2012
Liaise with other jurisdictions to ensure, as far as possible, national consistency in the administration and operation of the Residential Energy Efficiency Scheme	Ongoing – have had regard to interstate schemes when reviewing approved activities under the scheme; regularly liaise with interstate regulators
Develop consumer education material to explain the Commission’s role in water and the new regulatory framework and requirements	Completed - 14 fact sheets published
Update the consumer toolkit following implementation of National Energy Customer Framework and the Commission’s new water role	Completed - February 2013
Implement the Energy Efficiency Fund Initiative	In progress – the first round of grant funding awarded; second round process underway and on track to award and disburse remaining funding in 2013/14

### Goal 4: Our people, culture and processes enable us to best serve our primary objective

KEY INITIATIVE	ACHIEVEMENT
Further develop the Residential Energy Efficiency Scheme information technology system to provide for efficient and seamless data transfer between retailers and the Commission, and assist in the annual reporting process	Completed – with an upgrade to the REES-R system completed in November 2012.
Review the Commission’s accommodation needs and move to new accommodation	Completed – the Commission moved to more suitable premises in June 2013. Fit out costs well below both SA Government benchmarks and approved budget
Develop and publish a strategic plan and performance plan	Deferred to align with SA Government’s deadline for budget submissions. Going forward, the Strategic Plan will be completed each December, as the basis for the Performance Plan and Budget submission (due each February)
Develop and publish an annual report	Completed – provided to Treasurer as per legislative requirements and released in November 2012
Review policies and procedures as per required timeframes	Achieved
Maintain the Financial Management Compliance program	Achieved - appropriate financial management controls were in place throughout the year.
Implement the Workforce Strategy	Achieved
Coordinate regular internal presentations and debates on developments in regulated industries	Achieved – internal staff presentations held monthly
Organise and conduct quarterly activities to strengthen internal relationships and teams	Achieved
Undertake State procurement board audit	Completed – two low risk/priority issues were identified and fully addressed

## ABOUT THE COMMISSION

The Essential Services Commission of South Australia (the Commission) is a statutory authority established as an economic independent regulator under the Essential Services Commission Act 2002, which came into effect on 12 September 2002. The Commission regulates the provision of essential services in the electricity, gas, maritime, rail, water and wastewater industries (refer Table 1).

### *Objectives of the Commission*

The Commission's primary objective is defined by the Essential Services Commission Act 2002 as:

*"...protection of the long term interests of South Australian consumers with respect to the price, quality and reliability of essential services".*

The Essential Services Commission Act 2002 also sets out seven other factors to which we must have regard in performing our functions, being:

- ▲ promote competitive and fair market conduct;
- ▲ prevent misuse of monopoly or market power;
- ▲ facilitate entry into relevant markets;
- ▲ promote economic efficiency;
- ▲ ensure consumers benefit from competition and efficiency;
- ▲ facilitate maintenance of the financial viability of regulated industries and the incentive for long term investment; and
- ▲ promote consistency in regulation with other jurisdictions.

### *Functions of the Commission*

The Essential Services Commission Act 2002 and various industry acts together provide the Commission with regulatory powers and functions in the electricity, gas, maritime, rail and water and wastewater industries. Each industry Act defines the specific scope of our regulatory powers and functions. Our powers and functions vary significantly between industries, as summarised in Table 1.

**Table 1: Commission Regulatory Functions by Industry**

INDUSTRY	LEGISLATION	REGULATORY FUNCTIONS
Electricity	Electricity Act 1996	Licensing of specified electricity operations (generation, transmission, distribution and off-grid) in SA, network reliability standard-setting, solar photovoltaic feed-in price regulation (retailer payments only), preparation and publication of Ministerial reports on energy retail prices, Residential Energy Efficiency Scheme administration, performance monitoring.
Gas	Gas Act 1997	Licensing of specified gas operations (distribution [natural and LPG] and retail [LPG only]) in SA, preparation and publication of Ministerial reports on energy retail prices, Residential Energy Efficiency Scheme administration, performance monitoring.
Rail	AustralAsia Railway (Third Party Access) Act 1999; Railway (Operations and Access) Act 1997	Access regulation for the Tarcoola–Darwin railway and specified intra-state rail lines.
Ports	Maritime Services (Access) Act 2002	Pricing and access regulation for specified port services.
Water	Water Industry Act 2012	Licensing of water and wastewater retail operations in SA, consumer protection, retail price regulation, performance monitoring.

## WATER

The Water Industry Act 2012 establishes the regulatory framework for the water and sewerage industry, covering economic regulation, technical regulation, water planning and customer complaint handling.

The Water Industry Act 2012 commenced on 1 July 2012 and governs all water industry entities providing “retail services” to South Australian customers. These services include water (including recycled water and stormwater) and sewerage services offered by SA Water, councils and a number of private businesses across the State.

The Commission is responsible for the economic regulation of water and sewerage retail services in South Australia. The Commission’s role includes the licensing of water and sewerage retail service providers, service standard setting, consumer protection, retail price regulation and performance monitoring and reporting.

The Commission has undertaken extensive work during 2012/13 in performing its new functions.

### *Developing and Implementing the Water Regulatory Framework*

On 27 September 2010, the Treasurer wrote to the Commission seeking its advice on the appropriate form of price and non-price regulatory regime to apply to the South Australian water industry, were the proposed Water Industry Bill 2010 to be enacted.

On 14 December 2010, the Commission publicly released an initial Statement of Issues for stakeholder consultation. The Commission consulted on the broad regulatory framework that it intended to apply to the water industry, as part of the preparation of advice provided to the Treasurer in August 2011 and May 2012.

The Final Advice, published in June 2012, provided the Commission's final positions on the matters of principle as sought by the Treasurer, taking into account the final form of the Water Industry Act 2012, passed by the Parliament in April 2012, and the issues raised in submissions made during the Commission’s public consultation process on its Draft Advice.

The Final Advice did not, however, include consideration of the Commission’s approach to price regulation of SA Water as that advice was dependent on the content of a Pricing Order, which was to be made by the Treasurer. The Commission released its Statement of Approach covering the outstanding issues relating to the price regulation of SA Water in July 2012.

In June 2013, the Commission released its Final Decision on the Economic Regulation of Minor and Intermediate Retailers of Water and Sewerage Services. Minor retailers are water retailers with up to and including 500 connections. Intermediate retailers are water retailers with greater than 500 and up to and including 50,000 connections.

The Final Decision set out the consumer protection framework, price determination and ongoing reporting requirements to commence from 1 July 2013 for both Minor and Intermediate Retailers. The initial regulatory period for Minor and Intermediate Retailers will be four years, from 1 July 2013 to 30 June 2017.

The Commission's focus during 2012/13 was on implementing the regulatory framework set out in the Final Advice. This included developing and finalising water regulatory instruments, including Water Retail Codes, Reporting and Compliance Guidelines, and service standards, which confirmed the Commission's price and non-price regulatory frameworks.

## *Licensing*

From 1 January 2013, any person or entity providing "water retail services" to South Australian customers is required to be licensed by the Commission. The Water Industry Act 2012 defines a "water retail service" as:

- ▲ sale and supply of water to a person for use where the water is to be conveyed by a reticulated system; or
- ▲ the sale and supply of sewerage services (the collection, storage, treatment or conveyance of sewage through a reticulated system) for the removal of sewage, even if the service is not actually used.

A retail service includes, but is not limited to, the following activities:

- ▲ drinking water services;
- ▲ sewerage services;
- ▲ recycled water/stormwater services;
- ▲ other non-drinking water services; and
- ▲ other miscellaneous water and sewerage services.

The Commission work hard to assess and make decisions on a large number of license applications in a short period of time to meet the 1 January 2013 deadline.

In November 2012, the Commission approved the first water licences issued under the new Water Industry Act and as of 30 June 2013, the Commission had issued 57 water licences (including SA Water). A further 9 applications were under consideration as of 30 June 2013. A list of all licence holders can be found in Appendix 3. The Commission also issued one temporary exemption from the requirement to hold a licence.

## *Codes and Guidelines*

The Water Industry Act 2012 requires the Commission to establish a consumer protection framework through the use of industry codes made under Part 4 of the Essential Services Commission Act 2002. Industry codes prescribe detailed rules of conduct and procedure that must be followed by industry participants. The use of industry codes allows for a higher

degree of regulatory flexibility, while maintaining appropriate scrutiny, accountability and transparency of process in their development. Industry codes can cover any number of areas within a regulated industry, from consumer protection to technical matters.

### *Water Retail Code – Major Retailers*

The Water Retail Code – Major Retailers is the principal consumer protection document setting out the behavioural standards and minimum requirements to be complied with by Major Retailers when dealing with their customers. Major retailers are water retailers with greater than 50,000 connections (currently only SA Water).

The final Water Retail Code - Major Retailers was released in November 2012, to commence on 1 January 2013, and includes provisions requiring approval of standard form customer sale contracts; Customer Charters; enquiries, complaints and dispute resolution procedures; minimum billing requirements; payment flexibility and payment difficulties; and limitation on the grounds on which water and sewerage services may be restricted or disconnected.

### *Water Retail Code – Minor and Intermediate Retailers*

Section 25(2) of the Water Industry Act 2012 requires the Commission to have regard to the scale and nature of operations of water industry entities in determining the appropriate form of regulation, including industry codes, to apply to individual licensees. Consistent with that statutory duty, the Commission developed a separate consumer protection code to apply to Minor and Intermediate Retailers: the Water Retail Code – Minor and Intermediate Retailers. The Water Retail Code - Minor and Intermediate Retailers covers the key consumer protections to apply to both Minor and Intermediate Retailers; regardless of whether the retailer is a Council or a private operator.

The final Water Retail Code – Minor and Intermediate Retailers was released in June 2013. While the Code will commence on 1 July 2013, consistent with the Commission's approach to implementation of new regulatory requirements in other industries, Minor and Intermediate Retailers will be provided with a three month implementation period (until the end of September 2013) to allow for various policies and procedures to be developed and submitted to the Commission, for approval, where required.

### *Water Industry Guideline No. 1*

Pursuant to section 25(1)(a) of the Water Industry Act 2012, each licence issued will include a condition requiring the water industry entity to comply with applicable industry codes or rules made by the Commission under Part 4 of the Essential Services Commission Act 2002. Section 25(1)(l) of the Water Industry Act 2012 requires that all, or part of, the services, operations or activities authorised by the licence are audited with the results of the audit to be reported to the Commission.

Water Guideline No. 1 was developed to guide and assist regulated entities in complying with the Commission's regulatory requirements. This Guideline also aims to encourage regulated entities to co-operate in the early reporting and rectification of any identified non-compliance and adopts a risk-based approach (as far as possible) in compliance

monitoring and enforcement. The Guideline establishes an exception-based reporting regime, permitting retailers to report non-compliance to the Commission, rather than providing positive assurance of compliance each year. Under the Guideline, a retailer is required to provide regular compliance reports.

Water Guideline No. 1 was first released in December 2012, to apply to SA Water from 1 January 2013. The Commission released a revised version of Water Guideline No. 1 in June 2013 to include the compliance monitoring and reporting requirements for Minor and Intermediate Retailers.

### *Water Industry Guideline No. 2*

The Water Industry Act 2012 requires water retailers to monitor and report on indicators of service performance as determined by the Commission. Performance monitoring and reporting is a useful tool for informing customers about the level of service they are receiving (at an aggregate level) and identifying reasons for any poor performance. It allows for the comparison of businesses, by gauging relative performance within an industry (comparative competition) or with businesses performing comparable operations in other industries; and identifies baseline performance of individual businesses, providing incentives for improvement. Performance monitoring also provides the information and data required for developing service standards (or targets) and for ongoing assessment of compliance with such standards; and informs the decision making processes of regulatory agencies, water businesses and the Government.

Water Guideline No. 2 was first released in December 2012, to apply to SA Water from 1 January 2013. The Commission released a revised draft of Water Guideline No. 2 in June 2013 for public consultation to include financial reporting obligations and minor amendments to several service standard targets. The Commission is intending to release the finalised revised version of Water Industry Guideline No. 2 early in the second half of 2013.

The Commission will use the data collected under Water Industry Guideline No. 2 to monitor SA Water's performance in meeting set service standards and it will form an important input into our Water Industry Annual Performance Report. Financial data collected will also be used to inform future price/revenue determinations.

### *Water Industry Guideline No. 3*

In June 2013, the Commission released the final Water Industry Guideline No. 3 that set out financial and operational performance information reporting requirements to apply to all Minor and Intermediate Retailers.

As was the case in developing the consumer protection codes, the Commission had regard to the nature and scale of Minor and Intermediate Retailers' operations in developing Water Industry Guideline No. 3. The performance reporting requirements for Minor and Intermediate Retailers under Water Industry Guideline No. 3 will therefore be more light-handed than for SA Water during the initial regulatory period.



The information collected under this guideline will allow the Commission to monitor Minor and Intermediate Retailers' compliance with the financial and operating performance frameworks, inform any future service standards or targets, and will form an important input into the Commission's Water Industry Annual Performance Report.

## *Price Regulation*

### *Determination of SA Water's Drinking Water and Sewerage Revenue 2013/14 - 2015/16*

The Commission made its first independent revenue determination for SA Water in May 2013, setting maximum allowed revenue caps for drinking water and sewerage retail services for the three year period from 1 July 2013 to 30 June 2016. As required under a Pricing Order issued to the Commission by the Treasurer in September 2012 (the first Pricing Order), the Commission set revenue caps only (not prices). Prices (such as supply and usage charges for residential and non-residential customers) for these services are set by the SA Water and the South Australian Government; however, those prices must comply with the Commission's revenue caps.

In May 2013, the Commission received a second Pricing Order from the Treasurer which provided further directions that the Commission had to comply with in making its revenue determination.

The revenue determination reduced SA Water's real (inflation adjusted) average drinking water revenue per KL by 7.8% per cent from 1 July 2013; and its real average sewerage revenue per connection by 0.9% from 1 July 2013.

In 2014/15 and 2015/16, the Commission will adjust these average revenue caps by the annual change in the Consumer Price Index only.

### *Pricing Principles and Price Monitoring Framework for Minor and Intermediate Retailers*

The final Price Determination for Minor and Intermediate Retailers was released in June 2013. Unlike the revenue determination process for SA Water, (in which the Commission undertook a detailed examination of SA Water's costs), a more light-handed approach to price regulation will be applied to Minor and Intermediate Retailers during the Initial Regulatory Period (1 July 2013 to 30 June 2017) in the form of pricing principles and price monitoring.

The Commission's price monitoring regime for Minor and Intermediate Retailers place a strong emphasis on information transparency. While Minor and Intermediate Retailers will retain the responsibility for determining their own prices, the Commission will be introducing a greater level of transparency into the price-setting process by requiring Minor and Intermediate Retailers to take certain Pricing Principles into account and demonstrates to the Commission that they have done so. Minor and Intermediate Retailers will be

required to provide the Commission with Regulatory Accounting Statements by November each year (with the first accounts due by 30 November 2014).

To satisfy the Commission's public information disclosure requirements, each Minor and Intermediate Retailer is required to maintain a Pricing Schedule (containing prices for the current year; prices for the previous financial year; and the percentage change in those prices) and an accompanying Pricing Policy Statement that demonstrate how the pricing principles have been applied in determining prices for each regulated retail service.

The Commission will develop additional guidance to assist Minor and Intermediate Retailers in developing their Pricing Schedule and Pricing Policy Statement by the end of 2013.

### *Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform*

In September 2012, the Treasurer referred to the Commission an Inquiry into pricing reform for drinking water and sewerage retail services provided by SA Water. The Inquiry was referred to the Commission pursuant to section 35(1) of the Essential Services Commission Act 2002.

The Treasurer requires the Commission to undertake its Inquiry and submit Draft and Final Reports to the Treasurer and Minister for Water and the River Murray in accordance with the following timetable:

- ▲ a Draft Report on all matters subject to the Inquiry is to be submitted by 31 May 2014;
- ▲ a Final Report on all matters subject to the Inquiry is to be submitted by 31 December 2014.

The Commission commenced work on the Inquiry in late 2012/13 and expects to commence its public consultation process with the release of a series of Issues Papers in August 2013.

### *SA Water Service Standards 2013/14 - 2015/16*

In May 2013, the Commission released its Draft Decision on proposed changes to the targets to apply to SA Water service standards performance for 1 July 2013 to 30 June 2016. The Draft Decision followed the release of the Final Revenue Determination of SA Water's Drinking Water and Sewerage Revenue 2013/14 - 2015/16, which included a decision that the service standard measures to be implemented for the coming regulatory period would reflect measures that have applied during the period 1 January 2013 to 30 June 2013, but that the targets for those measures would be re-examined in an effort to achieve standards that best reflect historical performance. The finalised targets are planned to be in place by September 2013.

### *Review of Water Metering Arrangements*

In December 2012, the Commission commenced a cost-benefit analysis of installing separate water meters on public residential land pursuant to section 99 of the Water Industry Act 2012. The purpose of the analysis was to examine the appropriateness of installing individual water meters where they are currently not installed, with a particular focus on public residential lands (owned by the South Australian Housing Trust or similar public bodies).

In June 2013, the Commission released its report, which set out the costs and benefits, and distributional impacts, of three schemes to retrofit individual meters to approximately 17,000 South Australian Housing Trust residential dwellings which are currently serviced by group SA Water meters. The report also considered the merits of mandating individual metering for newly constructed South Australian Housing Trust properties.

The Commission found that, on a purely financial basis, there is no case for a large-scale roll out of individual water meters to all group-fed SAHT dwellings. The Commission's analysis shows that SA Water, South Australian Housing Trust and South Australian Housing Trust tenants would all pay more under an individually metered scenario. However, the mandating of separate metering to new builds is likely to be less costly than to retrofit.

### *Third Party Access*

In February 2013, the Minister for Water and the River Murray published a draft report on a proposed access regime for access to SA Water's water and sewerage infrastructure.

The Commission made a submission on the draft report, arguing that a robust and comprehensive access regime is essential to protect the long-term interests of consumers and to promote competition, innovation and efficiency – key objectives of the Water Industry Act 2012.

Pursuant to section 26 of that Act, the Minister must use his best endeavours to table in Parliament by the end of September 2013, a Bill to provide for an access regime.

## ENERGY

Significant changes occurred in 2012/13 which affected the Commission's regulatory responsibilities in both the electricity and gas industries.

Up until 31 January 2013, the Electricity Act 1996 provided a statutory basis for the regulation of the electricity supply industry in South Australia – including generation, transmission, distribution and retail. The Commission was responsible for giving effect to a regulatory regime under that Act, through the issuing of licences, the setting of service standards and monitoring of performance, and for setting the standing contract price for retail electricity.

As with electricity, until 31 January 2013, the Gas Act 1997 provided a statutory basis for the regulation of certain elements of the gas supply industry in South Australia. The Commission was responsible for giving effect to a regulatory regime under that Act, through the issuing of licences, the setting of service standards and monitoring of performance, and for setting the standing contract price for retail gas.

On 1 February 2013, the National Energy Retail Law commenced in South Australia which established the National Energy Customer Framework in South Australia. The National Energy Customer Framework is a national regime for the sale and supply of electricity and gas to retail customers. It contains a range of consumer protections and deals primarily with the following matters:

- ▲ the retailer-customer relationship and associated rights, obligations and consumer protection measures;
- ▲ distributor interactions with customers and retailers, and associated rights, obligations and consumer protection measures;
- ▲ retailer authorisations (whereas formerly retailers were licensed); and
- ▲ compliance monitoring and reporting, enforcement and performance reporting.

The Australian Energy Regulator is responsible for administration of the National Energy Customer Framework.

Additionally, on 18 December 2012, the South Australian Government announced that from 1 February 2013, electricity and gas retail prices in South Australia would be deregulated and the Commission would no longer have responsibility for setting electricity and gas standing contract prices.

However, the Commission retains certain energy functions including matters such as setting network service standards, administering the Residential Energy Efficiency Scheme, setting the Feed-in Tariff premium and administering specified National Energy Customer Framework transition obligations. The Commission has also retained the full suite of regulatory functions for "off-grid" electricity and gas operations that are not part of the national scheme. In addition, the Commission gained the new role of monitoring energy retail prices.

The Commission undertook two significant projects related to the retail energy market once the National Energy Customer Framework was introduced: a review of regulatory instruments and a review of information disclosure for no early termination fee market contracts, as discussed below.

The Commission's principal ongoing functions and powers in the electricity supply industry include:

- ▲ administering the licensing regime for electricity entities (generation, transmission, distribution, system control and off-grid suppliers), including the issuing and ongoing monitoring of those licences;
- ▲ monitoring and reporting on the performance of licensed entities with regulatory obligations imposed under Acts of Parliament, the licences they hold, industry codes, rules and guidelines issued by the Commission;
- ▲ making industry codes regulating the behaviour of licensed entities;
- ▲ setting the Feed-in Tariff premium;
- ▲ electricity retail price monitoring; and
- ▲ enforcing compliance with licensees' regulatory obligations, including undertaking enforcement action as appropriate.

The Commission's ongoing principal functions and powers in the gas supply industry include:

- ▲ administering the licensing of gas distribution entities;
- ▲ monitoring the performance of licensed entities (eg, as part of ensuring compliance with licence conditions) and report on such performance;
- ▲ gas retail price monitoring; and
- ▲ making industry codes to regulate the behavior of licensed entities.

The Commission collaborated closely with the Australian Energy Regulator and the Department of Manufacturing, Innovation, Trade, Resources and Energy (SA) to ensure a smooth transition from state regulation to the National Energy Customer Framework.

## *Transition to National Energy Customer Framework*

### *Post-National Energy Customer Framework Review of Regulatory Instruments*

With the transition to the national energy framework completed, the Commission commenced a review of regulatory instruments made by the Commission. The focus of the review was to ensure that obligations remain appropriate and to confirm consistency across documents.

In May 2013, the Commission released its Post-National Energy Customer Framework Review of Regulatory Instruments - Draft Decision and draft regulatory instruments for public consultation. The Commission will complete its review in 2013/14.

### *Information Disclosure for No Early Termination Fee Market Contracts*

With the commencement of National Energy Customer Framework, amendments were required to the Electricity (General) Regulations 2012 and Gas Regulations 2012. These amendments included the requirement for all National Energy Retail Law retailers to offer a market contract without an early termination fee for South Australian customers. It was intended that such a requirement would operate in addition to the energy contract information disclosure requirements that exist under the National Energy Customer Framework, administered by the Australian Energy Regulator.

The Commission sought comment on the suitability of information disclosure requirements existing under the National Energy Customer Framework, releasing a Draft Decision and Guideline for public consultation in May 2013. The Commission will complete this review in 2013/14.

## *Price Regulation*

### *Electricity Standing Contract – Wholesale Electricity Costs*

On 15 June 2012, the Commission commenced an investigation of the wholesale electricity component of the standing contract price with the release of a Discussion Paper.

In October 2012, the Commission released its Draft Determination. Preliminary evidence indicated wholesale costs had decreased and therefore, the Commission proposed an 8.1% reduction in the electricity standing contract price.

The Commission intended to make its Final Determination on 21 December with any changes to the standing contract price applying from 1 January 2013.

On 18 December 2012, the SA Government announced its decision to deregulate energy retail prices, as well as its related agreements with AGL and Origin to make Standing Offers with prices below the then-existing Standing Contract prices. AGL's residential electricity Standing Offer prices were 9.1% below the former Standing Contract prices for former Standing Contract customers and those who took up the Standing Offer prior to 1 February 2013. AGL's electricity Standing Offer prices were 4.5% below the former Standing Contract prices for all small business customers, as well as new residential customers who took up the Standing Offer on or after 1 February 2013. Origin's gas Standing Offer prices were 1.0% below the former Standing Contract prices.

The Commission therefore no longer has responsibility for setting electricity and gas standing contract prices and did not make a Final Determination of its review of the wholesale energy component of the electricity standing contract price.

### *AGL Court Case*

On 5 December 2012, the Commission confirmed (by notice on its website) that AGL had sought an order in the Supreme Court for a judicial review to set aside the Commission's determination that special circumstances existed to enable it to make its Draft Determination to change the electricity standing contract price applying from 1 January 2013, following investigation of the wholesale electricity component of the retail costs.

Under the terms of the agreement between the SA Government and AGL, announced on 18 December 2012, AGL discontinued its action and paid the Commission's court costs.

### *Solar Feed-in Tariff premium*

Notwithstanding the deregulation of the electricity and gas standing contract price-setting role, the Commission continues, at this stage, to set prices to be paid by retailers under the solar Feed-in Tariff premium scheme.

All small energy use customers (annual consumption of less than 160 MWh) with eligible photo-voltaic generators are entitled to receive the Feed-in Tariff premium that is set by the Commission. The Feed-in Tariff premium must be paid by retailers in addition to the Feed-in Tariff of 44 cents per kWh (for pre-October 2011 eligible photo-voltaic installations) or 16 cents per kWh (for photo-voltaic installations between October 2011 and the end of September 2013) which is payable by SA Power Networks.

### *Variation to 2012 Determination of the Feed-in Tariff premium*

The Feed-in Tariff premium is a dollar amount credited on solar customers' electricity bills when they generate more electricity than they use and it is required to reflect the fair and reasonable value of fed-in electricity to electricity retailers.

In January 2012, the Commission released its Final Price Determination for the Feed-in Tariff premium with the determination outlined in Table 2.

**Table 2: Feed-in Tariff premium (nominal cents per kWh and GST exclusive)**

27/01/12 – 30/06/12	01/07/12 – 30/06/13	01/07/13 – 30/06/14
7.1c/kWh	9.8c/KWh	11.2c/kWh

However, as the Commission had assessed that forecasts of the electricity spot price had declined significantly since January 2012, in March 2013 the Commission released a Draft Price Determination to vary the January 2012 decision and set the Feed-in Tariff premium at 9.8 cents per kWh from 1 July 2013 to 31 December 2013, which was previously set at 11.2 cents per kWh. The revised premium reflects the reduction in the forecast spot prices.

The amount represented the minimum Feed-in Tariff premium that must be made available to photo-voltaic customers. Electricity retailers may voluntarily pass on higher amounts if they wish.



Also under this proposed determination, the Commission recommended the Feed-in Tariff premium be reset on 1 January for each of the following 3 years (until 31 December 2016) using a set methodology. The annual update of the Feed-in Tariff premium will ensure that the amount is based on the most up to date information, including demand forecasts made by the Australian Energy Market Operator towards the end of each financial year.

On 27 June 2013, the Commission released its final determination for the Feed-in Tariff premium to apply from 1 July 2013. The Commission's variation to the 2012 Determination specifies that the minimum Feed-in Tariff premium to apply from 1 July 2013 until 31 December 2013 is 9.8 cents per kWh, revised from the previously determined 11.2 cents per kWh.

In the final determination the Commission also brought forward the expiry date to 31 December 2013 (from 30 June 2014), to reflect a review it is undertaking on both the need for or nature of future price regulation of the Feed-in Tariff premium which is scheduled for completion by the end of 2013. This reflects that the legislation provides flexibility for the Commission in making subsequent determinations and noting the deregulation of setting prices for the broader market that was implemented by the Government on 1 February 2013.

### *Price Monitoring – Electricity & Gas*

In 2012/13, the Commission planned to monitor and report indicators of competition in the electricity and gas retail markets, to ensure that the framework for energy price regulation remained effective. Due to the deregulation of energy prices, this work ceased.

Regulations associated with the implementation of the National Energy Customer Framework in South Australia require the Commission to produce and publicly release a Ministerial Pricing Report each year for the Minister for Mineral Resources and Energy, which provides information on energy retail prices that were generally available to South Australian residential and small business customers. This report is scheduled for release in August 2013.

### *Licensing*

With the commencement of the National Energy Customer Framework on 1 February 2013, all of the Commission's licences for on-grid electricity and gas retailers ceased to have effect, as responsibility for administration of the licensing regime for these entities was transferred to the Australian Energy Regulator. However, the Commission has retained the full suite of regulatory functions for "off-grid" electricity and gas operations that are not part of the National Electricity Market.

### *Electricity*

During 2012/13, the Commission issued 2 electricity retail licences and varied 2 retail licences (prior to the commencement of the National Energy Customer Framework). The Commission also varied 4 electricity generation licences (including 2 wind generation licences) and 1 electricity distribution licence. As at 30 June 2013, the Commission was in the

process of assessing 1 new electricity generation licence application and one electricity distribution exemption application.

A list of all licence holders as of 30 June 2013 can be found in Appendix 3

## *Gas*

During 2012/13, the Commission varied one gas retail licence (prior to the commencement of the National Energy Customer Framework). The Commission also issued 3 LPG gas licence exemptions. As at 30 June 2013, the Commission was in the process of assessing 3 new LPG gas licence applications.

A list of all licence holders as of 30 June 2013 can be found in Appendix 3.

### *Regulatory Arrangements for Reticulated LPG Networks*

In 2008, the Commission commenced a review of how the licensing provisions of the Gas Act 1997 applied to reticulated LPG networks in South Australia with a view to determining if the exemption regime should remain, or whether a licensing regime should be implemented as is envisaged under the Gas Act 1997.

In May 2010, the Commission decided to suspend this review as, around this time, the South Australian Government commenced a review of the Gas Act 1997 to determine the form of the regulatory framework to apply to types of gas other than natural gas following the commencement of the National Energy Customer Framework in South Australia.

Following the Government's decision that LPG will continue to be regulated by the Commission under the Gas Act, in October 2012, the Commission released a Further Draft Decision which set out the reasons for the Commission's decisions in respect of the future licensing arrangements to apply to reticulated LPG networks in South Australia

In April 2013, the Commission released its Final Decision, which stated that a licensing regime would be implemented for distributors and retailers of reticulated LPG in South Australia with licensing conditions including compliance with a Reticulated LPG Industry Code.

Distributors and retailers of reticulated LPG services were required to apply for a licence by 30 May 2013. The Commission received three LPG Gas Distribution licence applications which it consulted on, with consultation closing on 28 June 2013.

## *Codes and Guidelines*

### *ElectraNet's Proposed Amendments to Revised Electricity Transmission Code*

ElectraNet wrote to the Commission on 26 November 2012, proposing various amendments to the recently reviewed Electricity Transmission Code (TC/07), which is due to take effect on 1 July 2013. The Commission decided to consult publicly on ElectraNet's proposals.

The Final Decision on the amended Electricity Transmission Code, TC/07 (Version 2) is scheduled to be released on 1 July 2013.

### *SA Power Networks Service Standard Framework 2015 to 2020*

Under the Australian Energy Market Agreement, the Commission is responsible for developing reliability service standards for SA Power Networks. Once the Commission has established reliability standards, the Australian Energy Regulator is responsible for assessing the efficient level of expenditure required for SA Power Networks to provide distribution services at the specified standards.

For SA Power Networks to be able to develop and submit its revenue proposal to the Australian Energy Regulator in 2014, the Commission must develop the reliability service standards to apply for the 2015-2020 regulatory period in 2013/14.

The Commission released an issues paper in March 2013. Final service standards will be determined early in 2014.

### *Performance Monitoring*

In November 2012, the Commission released its Annual Performance Report for the energy sector, covering retail, distribution and electricity transmission for licensed entities performance for 2011/12.

In June 2013, the Commission released its final performance report on the retail energy market, which provided information on retailers' performance for the period July to December 2012. Whilst this was the Commission's final report for the overall performance of the energy retail market, the Commission will continue to publish an annual performance report on the performance of its remaining roles in the regulation of energy network businesses; SA Power Networks (electricity distribution), Envestra (gas distribution) and ElectraNet (electricity transmission).

The key issues which arose in the Annual Performance Report were communicated by the Commission to the Australian Energy Regulator, as the Australian Energy Regulator became responsible for reporting on the performance of energy retailers from 1 February 2013.

Detailed historical Annual Performance Report data is maintained on the Commission's website, provided in an Excel based spread sheet, designed to assist Researchers and other persons with an interest in examining specific results and trends.

### *Residential Energy Efficiency Scheme*

The Residential Energy Efficiency Scheme is established through Regulations under the Electricity Act 1996 and Gas Act 1997. The Regulations establish the Commission as the administrator of the Residential Energy Efficiency Scheme, which commenced on 1 January 2009.

Residential Energy Efficiency Scheme is an energy efficiency scheme that provides incentives for South Australian households to achieve greenhouse gas reductions and potentially lower their energy bills through reduced energy consumption. It does this through establishing obligations to be met by electricity and gas retailers.

The Commission administers the scheme within the parameters defined by the policy framework and in accordance with the Regulations. Following the introduction of the National Energy Customer Framework on 1 February 2013, retailers operating in South Australia continue to be Residential Energy Efficiency Scheme obliged retailers where they had a customer base exceeding 5,000 customers (as at 30 June in the preceding Residential Energy Efficiency Scheme year).

As scheme administrator, the Commission monitors and assesses compliance with the Residential Energy Efficiency Scheme. The Commission is also responsible for reporting to the Minister for Mineral Resources and Energy annually on retailers' progress in achieving the required targets.

### *2012 Residential Energy Efficiency Scheme Annual Report*

The Commission released its 2012 Residential Energy Efficiency Scheme Annual Report in June 2013. The Report assessed the overall performance outcomes for Residential Energy Efficiency Scheme in 2012.

Detailed Residential Energy Efficiency Scheme time series data is provided in an Excel based spread sheet maintained on the Commission's website. It includes performance data to assist researchers and other persons with an interest in examining specific results and trends.

### *Residential Energy Efficiency Scheme Bulletins*

In July 2012, the Commission revised and released 11 Residential Energy Efficiency Scheme Bulletins on its website, which provide interpretations and advice on Residential Energy Efficiency Scheme issues.

### *Residential Energy Efficiency Scheme Code*

The Residential Energy Efficiency Scheme Code establishes requirements in relation to the conduct and operations of energy retailers in satisfaction of Residential Energy Efficiency Scheme obligations. Included in the Code is a list of approved energy efficiency activities that can be undertaken by an obliged retailer to fulfil greenhouse gas reduction obligations.

The Commission undertook two Residential Energy Efficiency Scheme Code amendments in 2012/13. The first Code amendment related to energy efficiency activities, the requirement to conduct field audits, improving call centres awareness and the timeframe for submission of annual compliance plans. The Commission released its Final Decision and revised Code in January 2013 (REESC/05).

The second Code amendment related to consequential changes as a result of the commencement of the National Energy Customer Framework on 1 February 2013 (REESC/06).

### *Residential Energy Efficiency Scheme Energy Efficiency Activities*

The Commission has the function of maintaining, reviewing and amending the list of eligible energy efficiency activities (including deeming values and minimum specifications) for the purposes of the Residential Energy Efficiency Scheme. The Commission must do this in accordance with any requirements set by the Minister for Mineral Resources and Energy. The minimum specifications required to be adhered to in undertaking Residential Energy Efficiency Scheme activities are outlined in Schedule 4 of the Residential Energy Efficiency Scheme Code.

In June 2012, the Commission made its 2012 annual public call for applications for new Residential Energy Efficiency Scheme activities, including applications to vary or delete existing activities from the Residential Energy Efficiency Scheme Code.

Two applications were received and were assessed. The Commission approved one application as an activity under the Residential Energy Efficiency Scheme Code as of 3 January 2013. The Commission also approved minor clarifications to the specifications and guidance notes for the 'Install CFLs' activity.

In March 2013, the Commission made its 2013 annual public call for applications for new Residential Energy Efficiency Scheme activities, including applications to vary or delete existing activities. The Commission received two applications for new activities with the outcome of its assessment due to be released early in the second half of 2013. The Commission intends to release a revised Residential Energy Efficiency Scheme Code in early 2014.

### *Energy Efficiency Fund Initiative*

In September 2012, the Commission established the Energy Efficiency Fund Initiative. The Energy Efficiency Fund Initiative provides grant funding to not-for-profit organisations for energy efficiency projects to assist South Australian households facing financial stress. Any not-for-profit organisation can apply for grant funding under the Energy Efficiency Fund Initiative, providing it is registered with an Australian Business Number.

The Commission allocated \$243,750 towards the funding of these projects. This funding became available through the Commission's decision to impose a fine on an energy retailer for failing to meet the SA Government's Residential Energy Efficiency Scheme targets in 2011.

The Commission approved 3 energy efficiency grants as follows:

- ▲ Uniting Care Wesley Country SA - received funding for the distribution of 5000 energy efficient light globes and targeted grants to purchase energy efficient products in country areas.

- ▲ Normanville Natural Resource Centre - received funding to conduct audits (including the installation of simple energy saving devices and courses on energy efficiency for volunteers and householders) in the area around Yankalilla.
- ▲ Orana Inc - received funding to install solar power units for its newly renovated housing complex. The solar units will help to provide permanent and sustainable housing for adults with a disability and reduce the amount the occupants spend on energy bills.

Under the terms of the grant Deeds with each entity, the Commission receives quarterly operation and financial program reports. The Commission closely monitors those matters to ensure that the funds are expended appropriately.

As a residual amount of \$78,000 remained after the first 3 grants were approved, the Commission announced a second call for applications for funding, in April 2013. Applications closed on 31 May 2013.

The Commission is currently assessing the applications received and expects to announce successful applicants in September 2013.

### *Power Line Environment Committee*

The Commission is responsible for providing a secretarial service to the Power Line Environment Committee. The Committee, comprised of various industry and community representatives, is responsible for assessing submissions from Councils for funding projects to underground power lines for general community benefit.

The Committee recommends projects for undergrounding to the Minister for Mineral Resources and Energy who directs SA Power Networks to carry out work in accordance with the Electricity Act 1996. SA Power Networks contributes \$2 towards undergrounding costs for every \$1 contributed by local Councils.

The Minister for Mineral Resources and Energy appoints members to the Power Line Environment Committee.

The Power Line Environment Committee releases its own Annual Report, which can be accessed on the Commission website.

# RAIL

## *Tarcoola-Darwin Railway*

The Essential Services Commission is the regulator for South Australia's Intra-State Rail Access regime as set out in the AustralAsia Railway (Third Party Access) Act 1999.

Operation of the 1,420 km Alice Springs-Darwin railway began in January 2004. The railway operator also controls the existing 830km Tarcoola-Alice Springs railway.

Arrangements for access to the Tarcoola-Darwin railway are provided under the AustralAsia Railway (Third Party Access) Code, which is a Schedule to the AustralAsia Railway (Third Party Access) Act 1999 (SA & NT). The access regime in the AustralAsia Railway (Third Party Access) Code has been certified as an effective State regime in accordance with section 44N of the Trade Practices Act 1974. Details of the certification process can be found on the National Competition Council website.

Clause 5 of the AustralAsia Railway (Third Party Access) Code appoints the Commission as the regulator under this Code.

The AustralAsia Railway (Third Party Access) Code sets out arrangements for the negotiation of access to the railway; including a process for the arbitration of access disputes should they arise. The Commission does not set prices for the use of the Railway; rather prices are set by negotiation between access seekers and the access provider. No access disputes were notified in 2012/13.

In accordance with clause 7 of the AustralAsia Railway (Third Party Access) Code, the Commission prepares a separate Annual Report covering its activities as the access regulator for the Tarcoola-Darwin railway. The Commission provided the 2011/12 Annual Report to the Minister for Transport (SA) and Chief Minister (NT) on 30 September 2012 in accordance with the legislative timeframes.

## *Intra-state Railway*

The Essential Services Commission is the regulator for South Australia's Intra-State Rail Access regime as set out in the Railways (Operations and Access) Act 1997.

The Commission assumed this role from March 2004. This role had previously been assigned to the Executive Director, Transport SA.

The South Australian Rail Access Regime applies to Railway Services as defined under the Railways (Operations and Access) Act 1997. This covers the TransAdelaide broad gauge network within metropolitan Adelaide, the Genesee and Wyoming lines in the Murray-Mallee, Mid-North and Eyre Peninsula, and the Great Southern Railway passenger terminal at Keswick.

In relation to the Railways (Operations and Access) Act 1997, the Commission is subject to the control and direction of the Minister for Transport Services.



The Railways (Operations and Access) Act 1997 assigns the following specific functions to the Commission:

- ▲ monitoring and enforcing compliance with Part 3 (general rules for conduct of business) of the Railways (Operations and Access) Act 1997;
- ▲ monitoring the costs of rail services under the Railways (Operations and Access) Act 1997;
- ▲ making an application to the Supreme Court for appointment of an administrator where a rail operator becomes insolvent, ceases to provide railway services or fails to make effective use of the infrastructure of the State;
- ▲ establishing pricing principles;
- ▲ establishing requirements for information about access to rail services and determining the price to be charged for such information;
- ▲ conciliation of access disputes and referral of disputes to arbitration; and
- ▲ fulfilling any other functions and powers conferred by regulation under the Railways (Operations and Access) Act 1997.

No access disputes were notified in 2012/13.

In accordance with the requirements of section 9(4) of the Railways (Operations and Access) Act 1997 the Commission prepares a separate Annual Report covering its activities as regulator for the intrastate railway. The Commission provided the 2011/12 Annual Report to the Minister for Transport Services on 30 September 2012 in accordance with the legislative timeframes.

## PORTS

The Commission is the economic regulator for six commercial ports in South Australia. Economic regulation applies only to 'proclaimed ports', under the Maritime Services (Access) Act 2000 (MSA Act).

The following six ports have been proclaimed:

- ▲ Port Adelaide;
- ▲ Port Giles;
- ▲ Wallaroo;
- ▲ Port Pirie;
- ▲ Port Lincoln and
- ▲ Thevenard

Flinders Ports Pty Ltd operates the ports listed above.

The Maritime Services (Access) Act 2000 is committed to the Minister for Infrastructure. It came into operation on 31 October 2001 and provides for access to South Australian ports and maritime services on fair commercial terms and to regulate the price of essential maritime services. Essential maritime services are declared to be regulated industries for the purpose of the Essential Services Commission Act 2002.

The Commission regulates three types of port services:

- ▲ Essential Maritime Services - subject to price regulation with price monitoring;
- ▲ Regulated Services - subject to the ports access regime; and
- ▲ Maritime Services - a broader grouping of services subject to a range of review and notification processes, including:
  - ▲ notification of changes in pilotage charges;
  - ▲ development of service standards as appropriate; and
  - ▲ keeping maritime industries under review to determine whether regulation is required.

Price regulation is applied to infrastructure services termed "Essential Maritime Services" (e.g. providing for access of vessels, and facilities for loading and unloading of such vessels, at a proclaimed port) and Pilotage Services. Access regulation applies to a similar, but not identical, set of services known as "Regulated Services". The access regime provides for negotiation, conciliation and arbitration of access disputes to such Regulated Services. No access disputes were notified in 2012/13.

## *2012 Ports Pricing and Access Review*

During 2012/13, the Commission completed a review into the pricing and access regimes that apply to proclaimed ports in South Australia. The Commission reviewed whether the ports pricing and access regimes specified in the Maritime Services (Access) Act 2000 should continue beyond 30 October 2012 for a further five-year period.

The MSA Act requires the Commission to review the pricing and access regimes within a year prior to 30 October 2012, to examine whether or not continued regulation is necessary. The Commission's 2012 Ports Pricing and Access Review was completed to meet this requirement.

In October 2012, the Commission finalised its 2012 Ports Pricing and Access Review with a Final Report and Final Price Determination being released. The Commission concluded that the current ports price monitoring regime and third-party access regime should continue beyond 30 October 2012, for at least another 5 years. The Inquiry also found no persuasive arguments for the extension of the access regime's coverage and the introduction of a more intrusive form of ring-fencing arrangement going forward. The price determination replaced the 2010 Ports (Variation) Price Determination, which expired on 30 October 2012. The SA Government adopted the Commission's recommendation to extend the third-party access regime and enacted the Maritime Services (Access) Regulations 2012 which continues the access regime for a further period of 5 years until October 2017.

## COMPLIANCE

One of the key statutory functions of the Commission is monitoring and enforcement of compliance with standards and conditions of service and supply under relevant industry regulation Acts. In appropriate cases, the Commission is also charged with responsibility for conducting prosecutions for contraventions of the Essential Services Commission Act 2002 or other relevant industry regulations.

The Commission's compliance and enforcement functions apply in the energy, water, rail and ports industries.

In undertaking its compliance role, the Commission is guided by its primary legislative objective to protect the long term interests of South Australian consumers.

The Commission gives effect to its regulatory compliance role through a number of related actions. First, it is important that regulated entities are made aware of the obligations imposed on them and of the possible consequences of non-compliance. Second, compliance must be monitored. Finally, appropriate enforcement action must be taken in cases where non-compliance is detected.

The Commission has implemented a compliance regime that:

- ▲ encourages regulated entities to cooperate in the early reporting and rectification of any identified non-compliance;
- ▲ uses a risk-based approach in both monitoring and enforcement, based on the likelihood of a breach of a regulatory obligation and the impact on and consequences for South Australian consumers of such a breach; and
- ▲ reserves stronger enforcement action (e.g. prosecution) for serious cases involving willful or systemic non-compliance or circumstances in which other processes have not had the desired remedial effect.

The regulatory approach adopted for compliance matters is set out in Energy Industry Guideline No. 4 and Water Industry Guideline No. 1. These Guidelines establish an exception based reporting regime, permitting licensees to report non-compliance to the Commission, rather than providing positive assurance of compliance each year. Underpinning that approach is the requirement that each licensee has and uses an internal control system which meets the specifications of Australian Standard 3806 – Compliance Programs (AS-3806) and facilitates compliances and provides regular reporting to the business and to the Commission.

## *Compliance in the Retail Energy Sector*

From 1 February 2013, the principal regulation of South Australia's retail energy market transferred to the Australian Energy Regulator. For the period up to 31 January 2013, the Commission continued to monitor South Australian energy retailers' compliance with relevant laws, Commission codes, service standards and licence conditions.

Customer complaints to Energy and Water Ombudsman SA again played an integral role in identifying non-compliances and systemic issues. In September 2012, the Energy and Water Ombudsman SA referred for the Commission's consideration a matter relating to Origin Energy's billing capacities. The Commission contacted Origin Energy and requested further information as to the nature of the problem. The issue concerned Origin Energy's failure to bill its customers in a timely manner, in some cases for a period of more than 12 months. As such, Origin Energy was not considered to have used best endeavours to issue a bill at least quarterly. Origin Energy has since responded to the Commission's actions and formally undertaken to implement a project to resolve this issue.

The Commission continued to monitor Energy Australia's performance in regard to billing over the period. The information provided to the Commission indicated that a number of billing related issues were resolved in 2012/13 with the implementation of a new billing system in September 2012. However, towards the end of this regulatory period, the number of billing related issues increased.

The Commission has referred the details of both of these matters to the Australian Energy Regulator.

## *Compliance in the Water Sector*

Major, Minor and Intermediate Retailers are required to report on their compliance with their licence and respective Water Retail Codes, in a similar way to current reporting requirements required for the health or environmental licences of water retailers. Water Industry Guideline No. 1 came into effect on January 2013 and applied to the Major class of licensees. In July 2013 the Commission will extend the application of Water Industry Guideline No. 1 to the Minor and Intermediate classes of licensees.

The Commission generally adopts a multi-tiered approach to compliance reporting, based on the Commission's assessment and categorisation of obligations arising under applicable regulatory instruments:

- ▲ Type 1: those regulatory obligations which are identified as being of such importance that a breach of one gives rise to an immediate requirement to provide to the Commission a Material Breach Compliance Report;
- ▲ Type 2: those regulatory obligations which are identified as being of an importance that a breach of one must be identified to the Commission in the Quarterly Compliance Report; and

- ▲ Type 3: all regulatory obligations other than those identified as Type 1 or Type 2, a breach of which must be identified to the Commission in the Annual Compliance Report.

Type 1 obligations are reserved for high-risk obligations that concern the ability of a licensee to continue operations or where there is a major change in ownership. In addition, the Commission also considers immediate reporting mandatory where a licensee has committed a material breach of an obligation in the Water Industry Act or regulatory instruments made by the Commission.

The remaining obligations are then categorised as either Type 2 obligations which require quarterly reporting or Type 3 obligations which are reported on annually.

Major licensees are required to report on Type 1, Type 2 and Type 3 obligations.

The Commission expects that Major, Minor and Intermediate Retailers will continue to monitor compliance with all regulatory obligations throughout the year and resolve any potential non-compliances as they arise. However, the Commission only requires reporting on these regulatory obligations on an immediate, quarterly or annual basis as required by Water Industry Guideline No. 1.

The Commission intends to engage with Major, Minor and Intermediate Retailers to provide targeted support in regard to ongoing compliance reporting and other compliance matters in the 2013/14 year.

## *Enforcement Policy*

The Commission has published an Enforcement Policy, providing guidance on the criteria and processes it uses in determining the type of enforcement action required on a case by case basis. In general terms, the exercise of the Commission's administrative process is the primary means of enforcement used by the Commission, with disciplinary and prosecutorial processes reserved for the more serious matters of non-compliance. The Commission's enforcement processes can be categorised as follows:

- ▲ Administrative – through the exercise of roles and functions which are prescribed under legislation or arise in the ordinary course of performance of a legislative function;
- ▲ Disciplinary – through the exercise of powers granted under legislation to protect South Australian consumers; and
- ▲ Prosecutorial – through the exercise of powers granted under legislation to bring punitive action against an entity, which does not comply with legislative requirements.

The Commission also has a range of stronger administrative enforcement options such as verbal and written warnings, plus formal Warning Notices provided for in the Essential Services Commission Act and relevant industry regulation acts, together with prosecutorial and disciplinary powers.

In undertaking its compliance role, the Commission is guided by its legislative objectives, and in particular the need to protect the long-term interests of South Australian consumers with respect to the price, reliability and quality of essential services. The Commission will continue to work with licensees in relation to compliance and as such, encourages retailers to remain in regular contact with the Commission, should any issues or questions arise.

In March 2013, the Commission commenced a review of regulatory instruments made by the Commission. The Enforcement Policy was reviewed to ensure that its content is current and to confirm consistency across Commission documents. Only minor amendments were proposed for the Enforcement Policy to reflect the Commission's increased functions under the Water Industry Act 2012. The Commission intends to complete the review of the Enforcement Policy in the 2013/14 year.



## CONSULTATION AND INFORMATION SERVICES

The Commission is committed to engaging with all members of the community, including consumers and regulated entities, to promote transparent and consultative decision-making.

The Commission engages with members of the community by:

- ▲ having a consultative approach to decision making and information management;
- ▲ developing and maintaining relationships with consumers groups, Ministers, Government policy makers, other regulators and regulated entities.
- ▲ making information and publications accessible and consulting on regulatory decisions;
- ▲ inviting input into our work plan priority setting and regulatory processes; and
- ▲ communicating the outcomes of our work.

The Commission's approach to consultation is detailed in its Charter of Consultation and Regulatory Practice which the Commission reviews every three years. The Commission last reviewed its Charter in September 2012.

A focus for the Commission's consultation activities in 2012/13 was developing relationships with consumers and retail service providers in the water industry to ensure that they were aware of the regulatory regime and their responsibilities. To achieve this, the Commission met regularly with SA Water and also undertook regional visits to meet with minor and intermediate water retailers. Several visits to the regions occurred and included meeting with local councils in Naracoorte, Mannum, Balaclava, Olympic Dam and Crystal Brook.

The Commission held its last annual energy retailer collaboration meeting in November 2012, when all energy retailers were invited to attend and discuss, in round table format, the key areas of concern in the retail energy market regulatory framework. In 2012, the focus at Retailer Collaboration was the wholesale costs review being undertaken by the Commission, the transition to the national energy customer framework and the Residential Energy Efficiency Scheme.

Commission staff also attended and presented at several industry consultation forums.

### *Charter of Consultation and Regulatory Practice*

The Commission's Charter of Consultation and Regulatory Practice fulfils a legislative requirement under the Essential Services Commission Act to provide guidance on the processes for making price determinations, industry codes or rules and conducting inquiries.

The Charter of Consultation and Regulatory Practice details the Commission's open, transparent and inclusive review processes. The majority of our reviews allow all members of the community to provide submissions on proposed decisions and to suggest alternatives and improvements at various stages. Community engagement and consultation is central to

Commission's process to ensure we maintain and improve our decision-making process for our determinations and recommendations.

During 2012/13, the Commission conducted a review of the Charter of Consultation and Regulatory Practice to reflect changing responsibilities as South Australia's independent economic regulator of essential services. The revised Charter of Consultation and Regulatory Practice clarifies the Commission's remaining roles and functions in the energy industry following the introduction of the National Energy Customer Framework in South Australia. It also reflects the Commission's new role as the economic regulator of water and sewerage services.

A consultation draft Charter of Consultation and Regulatory Practice was released in late June 2012, with submissions closing on 10 August 2012. The Charter was finalised in September 2012.

### *Consumer Advisory Committee*

The Consumer Advisory Committee is established pursuant to section 14A of the Electricity Act 1996, section 15 of the Gas Act 1997 and section 14 of the Water Industry Act. Section 14A of the Electricity Act provides that:

*The Commission must establish an advisory committee comprising representatives of consumers (the consumer advisory committee) –*

- a) To provide advice to the Commission in relation to the performance of the Commission's licensing function under Part 3; and*
- b) To provide advice to the Commission, either on its own initiative or at the request of the Commission, on any other matter relating to the electricity supply industry.*

The Gas Act 1997 and the Water Industry Act 2012 accord the Consumer Advisory Committee the same responsibilities in respect of the Commission's functions for the gas supply industry and the water industry. The objectives of the Commission, as outlined in the Essential Services Commission Act provide the backdrop against which Consumer Advisory Committee is to operate.

Membership of the Consumer Advisory Committee is drawn from peak bodies representing a wide range of interests including disadvantaged consumers, rural and remote consumers, Local Government, environmental interest groups and industry and business generally.

Appointments to the Consumer Advisory Committee are made for a period of two years and the Commission reserves the right to add additional consumer representatives at any time.

The Consumer Advisory Committee meets quarterly and is chaired by the Chairperson of the Commission. Through the Consumer Advisory Committee, the Commission gains the views of their members' communities of interest and keeps members informed about issues and decisions relating to or having an impact on consumers.

## *Consumer Education and Information*

In 2012/13 the Commission assisted consumers with advice and assistance over the telephone and also through email and the Commission website.

Commission staff presented at community forums to improve consumer knowledge of the industries regulated by the Commission.

The Commission implemented a new internal communications policy in July 2012 with a focus on improving transparency in decision making and all open consultations were advertised through public notices in either the Advertiser and/or regional media.

The communications policy also has a focus on raising awareness of all members of the community on Commission projects and their opportunities to provide their views to the Commission. In addition, the Commission sought to improve information for consumers; for example ensuring the creation of simple consumer Fact Sheets to accompany Commission publications. As a result, the Commission released fourteen simple Fact Sheets in 2012/13.

In 2012/13 the Commission continued to review and improve its website. The Consumer Education site and [escosa.sa.gov.au](http://escosa.sa.gov.au) site were both changed significantly as a result of the implementation of the National Energy Customer Framework and the commencement of the Commission as the independent economic regulator of water retail services.

### *Residential Estimator Service*

Until 30 January 2013, the Commission continued to monitor and update its online Residential Estimator Service. The Estimator provided customers with the opportunity to compare electricity, gas and dual fuel market contracts which were available from licensed energy retailers. The results show the estimated annual energy costs under each contract, based on the electricity and gas consumption details entered by the consumer.

With the introduction of the National Energy Customer Framework on the 1 February 2013, the Australia Energy Regulator became responsible for providing this service.

From July 2012 to January 2013, there were 18,516 hits on the Residential Estimator, compared with 7,811 for the same period in the previous year.

To supplement the online Residential Estimator, the Commission offered this service over the telephone for customers who did not have access to the internet, had limited English or preferred to have this service provided over the telephone.

There were 561 Price Comparisons completed from 1 July 2012 until 31 January 2013, compared with 454 in the same period in the previous year.

### *Small Business Estimator Service*

The online Small Business Estimator assisted small businesses by enabling them to compare market offers. It was designed to compare the costs of electricity market contracts based on offers from electricity retailers.

The Small Business Estimator generated a report which compares the annual cost for any offer entered into the system by the consumer, including the gross electricity cost, any applicable incentives (rebates/bonuses) and the estimated annual saving.

The Commission notes that the use of the Small Business Estimator service had increased significantly with 1730 completed between 1 July 2012 until 31 January 2013, compared with 698 for the same period last year.

The responsibility for the Small Business Estimator service also transferred to the Australia Energy Regulator on the 1 February 2013.

# GOVERNANCE

## *Commissioners*

The Chairperson and other Commissioners are appointed by the Governor, pursuant to section 12 of the Essential Services Commission Act 2002. The Governor may appoint persons as Commissioners who are qualified for appointment on the basis of their knowledge of, or experience in, industry, commerce, economics, law and/or public administration.

The Commission comprises of Dr Patrick Walsh, Commissioner and Chairperson; Mr John Hill, Commissioner and Acting Chairperson; Professor Richard Blandy, Commissioner and Ms Barbara Rajkowska, Commissioner, noting that on the 30th June 2013, Professor Blandy's appointment as a Commissioner expired. The Commission thanks Professional Blandy for his wisdom and insights during his time as a Commissioner.

## *Commissioners*

### *Dr Pat Walsh*

Dr Walsh commenced in the role of Chairperson of the Commission in April 2005; this initial appointment expired in October 2010. His responsibilities throughout that period included those of Chief Executive Officer. Dr Walsh was reappointed to the position of Chairperson in February 2011 for a period of five years. This second appointment is on a part-time basis, following establishment by the Commission of a separate Chief Executive Officer position. Dr Walsh also holds the part-time position of Utilities Commissioner of the Northern Territory.

Dr Walsh is a Fellow of the Australian Institute of Energy and a Member of the Australian Institute of Company Directors. He is a member of the Advisory Board of the Centre for Regulation and Market Analysis (Uni SA). Dr Walsh is a Science graduate (majoring in Mathematics), and worked as a Research Scientist with the CSIRO during the 1970's. He also holds a PhD in Applied Mathematics and Masters of Business Administration from the University of Adelaide.

### *Mr John Hill*

Mr Hill is a former Deputy Under Treasurer with the South Australian Department of Treasury and Finance. He is a Board Member of Disability Care Australia and Meals on Wheels Inc. In addition, Mr Hill is a member of the Audit and Compliance Committee of the University of Adelaide and the Audit Committees of the Department of Treasury and Finance and the Department of Manufacturing, Innovation, Trade, Resources and Energy.

### *Emeritus Professor Richard Blandy*

Professor Blandy is an Emeritus Professor at Flinders University and an Adjunct Professor in the School of Management at the University of South Australia. He is also an Executive Director of AustralAsia Economics Pty Ltd. Professor Blandy has been Chairman of the South

Australian Energy Consumers Council, Chief Executive Officer of the South Australian Development Council, Ronald F Henderson Professor of Applied Economic and Social Research at the University of Melbourne, Professor of Economics and Director of the National Institute of Labour Studies at Flinders University, and an international civil servant at the International Labour Office, Geneva. Professor Blandy holds a PhD in Economics from Columbia University.

#### *Ms Barbara Rajkowska*

Ms Rajkowska is owner and Managing Director of BR Consulting. Ms Rajkowska has an extensive professional background at executive level and has served as a director of WorkCoverSA, the Environment Protection Authority SA Board, the Board of Examiners for Mine Managers SA, and as a member of the advisory panel of Hybrid Energy Australia. She has been a member and chairperson of a number of board committees including RenewablesSA and is currently a Competition Commissioner pursuant to the Government Business Enterprises (Competition) Act (SA).

Ms Rajkowska has over 25 years' professional experience in the energy industry in the areas of strategy and business development, sales and marketing and mining operations management. Ms Rajkowska was the President of the Epilepsy Association of SA and NT Board for 8 years.

#### *Chief Executive Officer*

#### *Dr Paul Kerin*

Dr Kerin joined the Commission as Chief Executive Officer in July 2011. He is also an Adjunct Professor at the University of Adelaide's School of Economics, a Member of the Board of the Adelaide Central Market and a Member of the Advisory Boards of the University of Adelaide's Business School and the Deakin Policy Institute.

Dr Kerin's career has spanned the gamut of academia, business, media, public policy and regulation. Prior to joining the Commission, Dr Kerin was Professorial Fellow at Melbourne Business School, a Director of Wheat Exports Australia and a columnist with The Australian.

Most of Dr Kerin's career has been in the private sector, where he was Managing Director of AT Kearney (Australia & New Zealand) and held various directorships. He has also served in the not-for-profit sector, where his roles included Chairman of Prahran Market. Dr Kerin spent his early career as an economist in the South Australian Public Service.

A Fulbright Scholar, Dr Kerin earned his PhD in Business Economics at Harvard University, where he served as the George Dively Research Fellow in the Centre for Business & Government. Dr Kerin also holds Bachelor of Economics (Hons.) and Master of Economics degrees from the University of Adelaide.

## Corporate Governance Framework

The Commission's Corporate Governance Framework sets out the means by which the Commission ensures compliance with its legislative responsibilities and manages the allocation of responsibilities between itself and staff of the Commission.

The Corporate Governance Framework clearly articulates the responsibilities reserved by the Commission and those delegated to the Chairperson or the Chief Executive Officer. The supporting corporate principles also ensure consistency and clarity of responsibility.

The Commission delegates responsibility for the management of all operational policy, resources and operational issues on day-to-day basis to the Chief Executive Officer.

## Regulatory Decision Making

The Commission is responsible for all regulatory decision making. The Commission has delegated some regulatory decisions and this is formally articulated in the Commission's Delegation of Authority and Use of Common Seal document. The Commission meeting process involves meeting every three weeks (or, when required, more frequent) to enable issues to be considered and formal decisions of the Commission to be made. During 2012/13, 23 Commission Meetings were convened.

Table 3 provides details of the attendance at those meetings.

**Table 3: Attendance at Commission meetings 2012/13**

	ELIGIBLE TO ATTEND	ATTENDED
Richard Blandy	23	23
John Hill	23	23
Barbara Rajkowska	23	23
Patrick Walsh	23	22

## Strategic Planning

The Commission's Strategic Plan is produced annually with a three-year timeframe and has a specific focus on the work program for the first twelve months of that three year period.

Each financial year the Commission reviews and revises the Strategic Plan to ensure that the Plan reflects the purpose, functions and responsibilities of the Commission.

The Commission also develops a Performance Plan which identifies key projects and ongoing activities for the first twelve months of the planning period. The documents together set out how the Commission will aim to meet its principal objective to protect the long term

interests of South Australian consumers of energy, water, sewerage, rail and maritime services in the next three years.

The Commission had amended the timing of the Commission's strategic planning process to align with SA Government's deadline for budget submissions. Going forward, the Strategic Plan will be completed each December, as the basis for the Performance Plan and Budget submission (due each February).

At the commencement of each financial year, a Performance Plan is developed which details the Commission's key projects and activities for the period. The Performance Plan is approved by the Treasurer and is based on the goals and strategies contained in the Strategic Plan. Achievement of the performance plan, (and consequently strategies set out in the Strategic Plan), are monitored quarterly with reports to both the Management Group and the Commission. At the end of each financial year, an assessment of the achievement of the projects and activities as listed in the Performance Plan is undertaken by the Chief Executive Officer.

## *Risk Management*

The Commission is committed to maintaining the highest possible integrity in all its dealings and demonstrating responsible risk management processes through a system of risk management implemented through a Risk Management Policy, Management Plan and Register.

The Commission oversees the establishment, implementation and review of the Policy and Register

## *Conflict of Interest*

The Commission requires all staff and Commissioners to comply with its Conflict of Interest Policy. The Commission maintains a Register of Commissioners' financial and business interests. This register is updated annually (or as a potential new conflict arises) and ensures potential conflicts of interest are managed appropriately. Commissioners report any perceived or potential conflicts of interest to the Treasurer. Commission staff also provide an update of interests on an annual basis to the Chief Executive Officer.

The Commission's Gifts and Hospitality Policy provides the framework for dealing with items presented to staff as gifts, and for reporting any benefits received or entertainment activities. All gifts presented to Commission staff are auctioned and proceeds are donated to a nominated charity. Commissioners report entertainment and/or hospitality events on a monthly basis to the Chairperson. Commission staff report on a quarterly basis, with information reviewed by the Chief Executive Officer.

The Public Sector (Honesty and Accountability) Act 1995 and the Public Sector Act 2009 specifies directors' duties of honesty, care and diligence and responsibilities in relation to conflict of interest, and the Commission observes all requirements.



# FINANCIAL PERFORMANCE

## *Overview*

This year's financial performance report is different to those of previous years, as the Commission believes it is important to outline improvements that it has made in its financial management, explain the impact of Government accounting policies on reported expenses and highlight emerging structural funding problems that will need to be addressed.

The Commission strengthened its financial management substantially in 2012/13. Two key improvement areas were:

- ▲ Retained earnings management; and
- ▲ Expense budgeting and management.

## *Retained Earnings Management*

In 2012/13, the Commission was proactive in its efforts to reduce retained earnings, which had reached \$11.47 million as of 30 June 2012. Retained earnings had grown because contributions from licensees and the SA Government had, in total, exceeded costs for a number of years.

The Commission managed to reduce retained earnings by \$1.72 million (15.0%), to \$9.75 million in 2012/13. This reduction was primarily achieved by obtaining the Treasurer's approval to return a total of \$1.44 million of excess funds in the barley, intrastate rail, interstate rail and ports sectors to the SA Government. While these were returns of funds, Government accounting policies require that they be recorded as expenses.

The Commission will continue to proactively manage retained earnings. However, returns of funds are likely to be significantly smaller in future years, as the 2012/13 returns dealt with excess funds that had accumulated over several years and the Commission is proactively working to ensure that future annual payments from the SA Government more closely match expected expenses.

As a further means of keeping retained earnings in check, the Commission will continue to be proactive in recommending licence fee reductions if they exceed projected costs. In 2012/13, the Minister for Energy and Mineral Resources approved a reduction in ElectraNet's annual licence fee by \$398,000 from 1 July 2013.

Due to emerging structural funding problems (explained below), the Commission currently expects to run at an overall net deficit each year in the foreseeable future. As a result, the Commission expects that the Treasurer will need to approve further reductions in retained earnings.

## *Expense Budgeting & Management*

The Commission substantially improved its expense budgeting in 2012/13. In previous years, the Commission had consistently and considerably underspent its annual expense budgets. For example, in 2011/12, the Commission underspent budget by \$1.19 million (19.4%).

Therefore, the Commission cut its expense budget by \$0.53 million (8.7%) for 2012/13. This was still \$0.66 million above actual 2011/12 expenses, primarily because consulting expenses were forecast to be \$0.56 million higher, in part because of the need to draw on expert external advice during the Commission's first Price Determination for SA Water. The Commission's budget forecast also included expenses associated with the Commission's planned office relocation.

On a like-for-like basis, actual expenses were within \$10,000 (0.2%) of budget. This was despite the Commission needing to incur substantial unbudgeted expenses – particularly as a result of two factors. First, the Commission decided that, given apparent movements in wholesale electricity costs, it was in the long-term interests of consumers to review those costs and consider whether it should vary its electricity Standing Contract Price Determination as a result. Second, the Commission had to perform certain unbudgeted energy retail regulatory functions for seven months of 2012/13, due to the delayed passing of legislative amendments required to enable the implementation of National Energy Customer Framework and the associated transfer of responsibilities for those functions from the Commission to the Australian Energy Regulator. When the legislative amendments were first delayed, the Commission had notified the Treasurer that the delay could cause the Commission to exceed its expense budget by several hundred thousand dollars.

The headline total expenses reported in the Commission's financial statements appear to show a large increase in 2012/13 – from \$4.93 million in 2011/12 to \$7.83 million. However, these numbers are not like-for-like. Table 4 provides a summary comparison of like-for-like expenses, after adjusting 2012/13 reported expenses downwards by a total of \$2.23 million for the effects of Government accounting policies.

**Table 4: Comparison of Reported and Like-for-Like Expenses (\$ million)**

ITEM	2011/12 ACTUAL	2012/13 ORIGINAL BUDGET	2012/13 ACTUAL
Total reported expenses	4.933	5.594	7.829
Less:			
Returns of funds to SA Government	-	-	1.440
Refund of retail energy licence fees	-	-	0.551
SACOSS funding	-	-	0.100
Energy Efficiency Fund Initiative disbursements	-	-	0.064
Office fit-out costs	-	-	0.070
<b>Total like-for-like expenses</b>	<b>4.933</b>	<b>5.594</b>	<b>5.604</b>

As noted above, Government accounting policies require that the \$1.44 million of funds that the Commission returned to the SA Government be reported as expenses.

Regulations under National Energy Customer Framework required the Commission to refund energy retailers the unused portions of their annual licence fees as of 1 February 2013, the commencement date of National Energy Customer Framework. The total refund due to retailers was \$551,000. Government accounting policies require that this amount be recorded as an expense.

During the year, the Treasurer agreed to a request by the Minister for Mineral Resources and Energy to transfer \$100,000 in 2012/13 and in each of the subsequent two years from the Commission's retained earnings to the SA Government to partially fund a grant agreement between the Minister for Mineral Resources and Energy and SACOSS. Government accounting policies require that these transfers be recorded as expenses.

In 2011/12, the Commission imposed a penalty of \$244,000 on Lumo Energy for failure to meet targets under the Residential Energy Efficiency Scheme. The Commission subsequently established the Energy Efficiency Funding Initiative to seek energy efficiency proposals and disburse the penalty monies that had been received over time to successful tenderers. In 2012/13, the Commission disbursed \$64,000 of Energy Efficiency Funding Initiative funds. Government accounting policies require that these disbursements be recorded as expenses.

Finally, the Commission had budgeted for all office fit-out costs associated with its office relocation to be treated as capital expenditures. However, Government accounting policies required that \$70,000 of fit-out costs be recorded as expenses.

Adjusting for the effects of these Government accounting policies, on a like-for-like the Commission's 2012/13 actual expenses were within \$10,000 (0.2%) of budget, despite unbudgeted cost pressures caused by the delayed implementation of National Energy Customer Framework and the review of wholesale energy costs. While expenses were

\$10,000 over budget, these expenses included \$28,800 of legal fees, which were reimbursed by AGL Energy; this reimbursement is accounted for in the Commission's revenues.

## *Revenue*

The Commission's net revenue from all sources in 2012/13 was \$6.11 million, \$19,000 less than 2011/12. The Commission invoiced licence and administration fees of \$12.92 million in 2012/13. Each year, the Commission is required to make transfers out of its gross licence and administration fee revenues to various parties, such as the Office of the Technical Regulator. Such transfers are termed "Administered Items". In 2012/13, the Commission was required to transfer \$7.17 million as Administered Items (refer to Note 28 for further details). Energy licence and administration fees were the Commission's primary source of revenue (53%) in 2012/13, with water licence fees representing the next highest source (41%).

Licence fee payments to the Commission from energy retailers ceased from 1 February 2013 (the commencement date of the National Energy Customer Framework) and were replaced with administration fee payments to help fund the Commission's remaining energy retail activities.

The Commission had expected that administration fees would be significantly lower than the former licence fees, as the Commission would no longer need to perform some roles that were transferred to the Australian Energy Regulator. However, the parameters set by the Minister for Mineral Resources and Energy resulted in administration fees being much lower than expected. Following 1 February 2013, the Commission received gross retail administration fee revenue (invoiced on an annual basis) of \$320,000; after transfers, the Commission's net retail administration fee revenue was \$44,000.

The Commission became the economic regulator of the water industry in 2012/13 and invoiced water licence fees for the first time. The Commission invoiced licence fees totalling \$3.36 million. The SA Water licence fee was the largest at \$3.10 million. Further licence fees totalling \$262,000 were contributed by 56 smaller water licencees. After required transfers of \$0.85 million as Administered Items, net water licence fee revenue was \$2.51 million.

The Commission's ports and interstate rail activities are funded by the SA Government. The Commission's Tarcoola-Darwin rail activities are funded equally by the SA and NT Governments. In total, the SA Government provided \$330,000 (\$550,000 in 2011/12) of funding for ports and rail activities, while the NT Government provided \$11,000 of funding.

## *Net Result*

The Commission's 2012/13 net result was a deficit of \$1.72 million, compared to a surplus of \$1.20 million in 2011/12. The large bulk of the year-on-year change in the net result was accounted for by the \$2.23 million impact of Government accounting policies on reported expenses.

## *Emerging Structural Funding Problems*

Given that the Commission currently expects some of the factors that drove new expense burdens (such as SACOSS funding) and very low energy retail administration fees to persist, the Commission currently expects that it will continue to run at an overall reported net deficit each year in the foreseeable future. The Commission can sustain running at an overall net deficit for several years to come, provided that the Treasurer approves further reductions in retained earnings. However, it is not sustainable in the longer-term.

The Commission's more important concerns are in regard to two "structural" funding problems that emerged during 2012/13. In particular, the Commission now runs significant net deficits in both its energy retail activities and its water activities. These sectoral deficit issues have emerged only recently as a result of changes beyond the Commission's control.

First, as noted above, under the parameters set by the Minister for Energy and Mineral Resources, the Commission currently expects its future net annual retail administration fee revenues to be only \$44,000. Such revenues are substantially below the costs of performing the Commission's remaining energy retail functions, such as administration of the Residential Energy Efficiency Scheme, price monitoring and retail Feed-in Tariff price regulation. Residential Energy Efficiency Scheme administration accounts for a high proportion of these costs. The Commission has informed the Treasurer that, given the low level of energy retail administration fees, it expects to run an annual deficit of over \$600,000 in the energy retail sector.

Second, while the Commission readily accepts recent changes in its roles (such as the transfer of certain energy retail functions to the Australian Energy Regulator under National Energy Customer Framework and the move from setting regulated energy retail prices to monitoring energy retail prices), the loss of roles in the energy sector inevitably imposes cost burdens on other sectors.

The Commission has sought to adjust its cost base in response to role changes. In preparing its 2012/13 budget, as the Commission had expected that National Energy Customer Framework would be implemented by 1 July 2012, it had reduced budgeted expenses accordingly. The Commission has further reduced budgeted expenses for 2013/14 to reflect cost-savings made as a result of the move from setting regulated energy retail prices to monitoring energy retail prices.

However, as the Commission is a small organisation with unavoidable fixed costs, the Commission's total costs cannot be reduced proportionately. Therefore, recent reductions in roles in the energy industry mean that other regulated industries are left to bear a higher share of those unavoidable fixed costs. In particular, as a result of its loss of energy roles, the Commission now runs at a significant annual deficit in the water sector industry; this is not sustainable in the long-term.

The Commission had informed the Treasurer of these important structural funding problems and proposed alternative solutions, which the Treasurer is considering.

## Other Financial Matters

### Capital Expenditure

The Commission's capital expenditure in 2012/13 was \$554,000 (\$0 in 2011/12), all of which related to the fit-out of its new office accommodation. The Commission had budgeted capital expenditure per m2 of fit-out to be significantly below the Government's benchmarks. Actual fit-out expenditure was significantly below budget.

### Use of Consultants

The Commission is a small office with broad regulatory responsibilities. The Commission supplements the expertise of its own staff with specialist technical, economic and other advisors and consultants. This approach allows the Commission to manage both cyclical and time-critical regulatory tasks in an efficient and effective manner and provides the Commission with access to experienced consultants when a matter requires attention in an area where it would be impossible or unjustified for staff to be engaged full time on such activities.

The Commission entered into consultant contracts to the value of \$734,000 during 2012/13 (\$551,000 in 2011/12), representing approximately 9% of total expenses (11% in 2011/12). Details, including the number of consultants utilised and the amounts paid or payable to these consultants, are summarised in Table 5.

**Table 5: Consultant Projects 2012/13**

<b>Fees less than \$10,000</b>	<b>Number: 4 Value: \$23,161</b>
Beletich Associates	Assessment of New Residential Energy Efficiency Scheme Activities
GHD Pty Ltd	Auditing of Water National Performance Report Indicators
SFG Corporate Pty Ltd	Equity Beta Advice
Sinclair Knight Merz	Electricity Transmission Code Advice
<b>Fees between \$10,000 and \$50,000</b>	<b>Number: 4 Value: \$105,238</b>
ACIL Tasman	Electricity Standing Contract - Feed-in Tariff Premium
Cardno (QLD) PTY LTD	Review of Water Capital and Operating Expenditure
	SA Water Supply Mix Optimisation Review
Deloitte Touche Tohmatsu	Review of Compliance with the Fee-in Tariff Scheme
Frontier Economics Pty Ltd	Electricity Standing Contract - Wholesale Cost Review
International Economics Pty Ltd	SA Water Demand Forecasts Review
	SA Water Top Down Efficiency Benchmarking
<b>Fees more than \$50,000</b>	<b>Number: 5 Value: \$606,000</b>
<b>Total</b>	<b>Number: 13 Value: \$734,399</b>

## Accounts Payable Performance

The Commission's Accounts Payable service was provided by the Department of Premier and Cabinet (Shared Services) under a Service Level Determination using an online e-procurement system.

All public authorities are required to report the number and value of creditors' accounts paid and the extent to which the accounts have been paid in accordance with Treasurer's Instruction 11.

This instruction requires all undisputed accounts to be paid within 30 days of the invoice date or the date the invoice is first received by the Commission, unless there is a discount or a written agreement between the Commission and the creditor.

Table 6 demonstrates that the Commission paid 97% of invoices by the due date and almost 100% of invoices paid within 30 days from the due date. This performance level exceeds the Government's benchmark of 90% of invoices paid by the due date.

**Table 6: Accounts Payment Performance**

PARTICULARS	NUMBER PAID	%	AMOUNT PAID (\$'000)	%
Paid by the due date	565	97%	2,099	92%
Paid less than 30 days from the due date	15	3%	156	7%
Paid more than 30 days from the due date	2	0%	34	1%
TOTAL	582	100%	2,289	100%

## Contractual Arrangements

The Commission did not enter into any contractual arrangements exceeding \$4 million in value during the financial year.

## Fraud

No instances of fraud were detected within the Commission during 2012/13.

## Overseas Travel

There was no overseas travel during 2012/13.

# WORKFORCE AND OFFICE MANAGEMENT

## *Workforce Development*

The Commission's 2012 – 2015 Workforce Strategy provides the framework for the Commission's strategic workforce management and planning initiatives in areas such as resourcing, performance and professional development and working arrangements.

The Workforce Strategy acknowledges the dedication and hard work of the Commission's existing employees and appreciates the value and importance of employees with long term service. At the same time, the Workforce Strategy recognises the need to sustain and renew the Commission's workforce in the context of the changing regulatory framework and the need for us to attract quality employees.

The Workforce Strategy has a 3-year focus with the key workforce priorities for the Commission being set for that period. The actions under the Key Priorities are set annually to ensure continuous improvement is made and review occurs to ensure all actions have been undertaken and targets have been met.

The key completed actions from 2012/13 were:

- ▲ a succession planning policy was developed and implemented;
- ▲ a review of the performance development form;
- ▲ conducting a review of training and development over the past 3 years; and
- ▲ a quarterly human resource report was developed for Management.

As at 30 June 2013, 92.6% of staff had a current Performance Agreement in place. During the 2012/13 year, training and development expenditure was 3.6% of total remuneration. This compares with 4.5% of total remuneration spent in 2011/12. The Commission is committed to maintaining the ongoing focus on training and development that is targeted and tailored for each individual.

The Commission also continued its Staff Incentive Scheme for all staff, with the exception of the Chief Executive Officer. The scheme is directly aligned with the Strategic Planning process and is designed to encourage teamwork and commitment to the Commission's values, goals and objectives; with 50% of the scheme based on the overall performance of the Commission against its performance targets, and the remaining 50% based on individual employee contributions to the values and operation of the Commission.

## *Organisational Structure*

During 2012/13, the structure of the Commission remained stable, with the staffing levels of the three groups, led by the Chief Executive Officer, as follows (as at 30 June 2013):

- ▲ Pricing and Analysis (7 full time, 1 part time and 1 casual employee);



- ▲ Consumer and Regulatory Affairs (7 full time, 2 part time, and 1 casual employee); and
- ▲ Governance and Strategy Group (7 full time and 1 part time employee).

Specialist services are sought from external consultants for various aspects of the Commission's regulatory work. Legal expertise is sourced from the Office of the Crown Solicitor, as well as private sector legal advisors.

A detailed breakdown of workforce management statistical information is contained in Appendix 4.

### *Office Relocation*

In June 2013, the Commission relocated offices to Level 1, 151 Pirie Street, Adelaide from Level 7 & 8, 50 Pirie Street, Adelaide. This more suitable accommodation allows for all Commission staff to be together on one floor which:

- ▲ encourages and facilitates sharing of information between workgroups and therefore encourages a general diversity of views;
- ▲ enables easier working across workgroups on issues, particularly when issues arise quickly;
- ▲ promotes cross-workgroup discussions and team work;
- ▲ promotes a consistent culture;
- ▲ assists in exposing staff to new and varied experiences with other workgroups; and
- ▲ encourages the development of mutual respect for colleagues by allowing for easier social and professional interaction.

The office move took place on Saturday 22 June 2013 with all staff commencing work in the new premises on Monday 24 June.

### *Work Health & Safety*

During 2012/13, the Commission conducted a major review into its Occupational Health, Safety and Welfare Policy. With the commencement of the Work Health and Safety Act on 1 January 2013, the revised policy, entitled Work Health & Safety Policy reflects the requirements and obligations of the Work Health and Safety Act.

The Commission's Work Health and Safety Policy outlines the strong commitment to the health and safety of all persons at the workplace through the provision of a safe and healthy work environment, in addition to ensuring that all legislative requirements are met. The Commission also reviewed six of its Work Health and Safety Policies during 2012/13.

A number of staff had an ergonomic review of their work stations in 2012/13, with the intention of all staff having an ergonomic assessment early in 2013/14, once the office relocation was completed. This review is conducted to ensure early detection of any potential problems or work practices, as well as determining any special requirements for

staff to ensure any existing issues would not intensify. Flu vaccinations were also offered again to all employees in 2012/13.

The Commission is also pleased to report that there were no reportable Work Health and Safety incidents or accidents during the year. Appendix 5 provides full details of Work Health, Safety and Welfare and Injury Management statistics for the 2012/13 period.

### *Freedom of Information*

The Commission is considered an agency under the Freedom of Information Act 1991. Under section 9 of the Freedom of Information Act 1991, agencies must publish an up to date information statement every 12 months. The Commission's Freedom of Information – Information Statement is available on the Commission website.

The Commission received one Freedom of Information request in 2012/13.

## APPENDICES

## APPENDIX 1: INQUIRIES, MINISTERIAL DIRECTIONS AND PRICING ORDERS

REQUEST FOR ADVICE	FROM	DATE OF REQUEST	DATE FINAL ADVICE PROVIDED	DATE FINAL ADVICE PUBLISHED
Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform in South Australia	Treasurer	24/09/2012	Due on 31/12/2014	TBA
Water Industry Act 2012 (Section 35) Pricing Order for the Regulatory Period 1 July 2013 – 30 June 2013	Treasurer	24/09/2012	n/a	27/05/2013
Water Industry Act 2012 (Section 35) Second Pricing Order for the Regulatory Period 1 July 2013 – 30 June 2013	Treasurer	17/05/2013	n/a	27/05/2013

In addition, the Commission from time to time responds to confidential requests for advice on various matters from the Treasurer; the Commission is unable to publicly consult or report on confidential matters.

## APPENDIX 2: LICENSED AND EXEMPTED ENTITIES

*As at 30 June 2013*

### *Electricity*

ENTITY NAME	LICENSING TYPE
AGL Hydro Partnership & Hallett 5 Pty Ltd - Bluff Wind Farm (Hallett Stage 5)	LICENCE - Electricity Generation 30MW < 100MW
AGL Hydro Partnership & Brown Hill North Pty Ltd - North Brown Hill Windfarm	LICENCE - Electricity Generation 100MW < 200MW
AGL Hydro Partnership - Hallett Hill Wind Farm	LICENCE - Electricity Generation 30MW < 100MW
AGL Power Generation (Brown Hill Pty Ltd) - Brown Hill Wind Farm	LICENCE - Electricity Generation 30MW < 100MW
AGL SA Generation Pty Ltd - Torrens Island Power Stations A & B	LICENCE - Electricity Generation > 200MW
AGL South Australia Pty Ltd - Wilpena Pound Power Station & Cooper Brewery Generator Facility	LICENCE - Electricity Generation 5MW < 30MW
BHP Billiton Olympic Dam Corporation Pty Ltd	LICENCE - Regional Electricity Distribution   Transmission
Canunda Power Pty Ltd - Canunda Wind Farm	LICENCE - Electricity Generation 30MW < 100MW
Cathedral Rocks Wind Farm Pty Ltd – Cathedral Rocks Wind Farm	LICENCE - Electricity Generation 30MW < 100MW
Cavill Power Products Pty Ltd - Oodnadatta, Parachilna, Marla, Marree, Nundroo, Glendambo, Kingoonya, Mannahill and Blinman (Remote Areas Energy Supply)	LICENCE - Regional Electricity Generation
Cowell Electric Supply Pty Ltd	LICENCE - Regional Electricity Distribution
Dalfoam Pty Ltd	LICENCE - Regional Electricity Retail   Generation   Distribution
District Council of Coober Pedy	LICENCE - Regional Electricity Retail   Generation   Distribution

ElectraNet Pty Ltd	LICENCE - Electricity System Control   Transmission
Energy Developments Limited Group Operations Pty Ltd – Wingfield 1, Wingfield 11, Tea Tree Gully Highbury, Pedlar	LICENCE - Electricity Generation 5MW < 30MW
EnergyAustralia Pty Ltd – Hallett Power Station	LICENCE - Electricity Generation 100MW < 200MW
Energy Response Pty Ltd – Amcor Glass Factory	LICENCE - Electricity Generation 100kVA<5MW
Epic Energy South Australia Pty Ltd	EXEMPTION - Electricity Distribution   Generation   Retail
Flinders Power Holdings GmbH, Flinders Labuan (No. 1) Ltd, Flinders Labuan (No. 2) Ltd & Flinders Operating Services Pty Ltd	EXEMPTION - Distribution   Retail
Flinders Power Holdings GmbH, Flinders Labuan (No. 1) Ltd, Flinders Labuan (No. 2) Ltd & Flinders Operating Services Pty Ltd – Port Augusta Power Station	LICENCE - Electricity Generation > 200MW
Infratil Energy Australia Pty Ltd – Angaston, Lonsdale & Pt Stanvac Power Stations	LICENCE - Electricity Generation 100MW < 200 MW
Jeril Enterprises Pty Ltd	LICENCE - Regional Electricity Retail   Generation   Distribution
Lake Bonney Windpower Pty Ltd – Lake Bonney Wind Farm (Stage 1, 2 &3)	LICENCE - Electricity Generation > 200MW
Lofty Ranges Power Pty Ltd & SA Water Corporation – Terminal Storage Reservoir Hope Valley	LICENCE - Electricity Generation 100kVA<5MW
Minister for Mineral Resources and Energy	LICENCE – Regional Electricity Retail   Generation
Mt Millar Wind Farm Pty Ltd – Mt Millar Wind Farm	LICENCE - Electricity Generation 30MW < 100MW
Municipal Council of Roxby Downs	LICENCE - Regional Electricity Distribution
Murraylink Transmission Company Pty Ltd	LICENCE - Electricity Transmission 100MW < 200MW
OneSteel Manufacturing Pty Ltd	LICENCE - Regional Electricity Generation   Distribution
Origin Energy Electricity Ltd - Osborne Power Station	LICENCE - Electricity Generation 100MW < 200MW

Origin Energy Electricity Ltd - Ladbroke Grove & Quarantine Power Stations	LICENCE - Electricity Generation > 200MW
OZ Minerals Prominent Hill Operations Pty Ltd	LICENCE - Regional Electricity Transmission
Pacific Hydro Clements Gap Pty Ltd – Clements Gap Wind Farm	LICENCE - Electricity Generation 30MW < 100MW
Pelican Point Power Limited – Pelican Point Power Station	LICENCE - Electricity Generation > 200MW
Royal Agricultural & Horticultural Society of SA Inc.	LICENCE - Electricity Generation 100kVA<5MW
SA Power Networks (a partnership of: Spark Infrastructure (No 1), Spark Infrastructure (No 2), Spark Infrastructure (No 3) Pty Ltd, CKI Utilities Development Ltd, PAI Utilities Development Ltd)	LICENCE - Electricity Distribution   Regional Electricity Distribution
SA Power Networks (a partnership of: Spark Infrastructure (No 1), Spark Infrastructure (No 2), Spark Infrastructure (No 3) Pty Ltd, CKI Utilities Development Ltd, PAI Utilities Development Ltd) – Kingscote Power Station	LICENCE - Electricity Generation 5MW < 30MW
Santos Ltd	EXEMPTION - Electricity Retail   Generation   Distribution
Snowtown South Wind Farm Pty Ltd	LICENCE – Electricity Generation 100MW<200MW
Snowtown Wind Farm Pty Ltd – Snowtown Wind Farm	LICENCE - Electricity Generation 30MW < 100MW
Snowtown Wind Farm Stage 2 Pty Ltd	LICENCE – Electricity Generation 100MW<200MW
Starfish Hill Wind Farm Pty Ltd – Starfish Hill Wind Farm	LICENCE - Electricity Generation 30MW < 100MW
Synergen Power Pty Ltd – Snuggery, Port Lincoln, Mintaro & Dry Creek Power Stations	LICENCE - Electricity Generation > 200MW
The Minister who is administratively responsible for carrying out retailing under the scheme known as the Remote Areas Energy Supply scheme	EXEMPTION - Electricity Retail (Remote Areas Energy Supply)

Transfield Services (Australia) Pty Ltd	EXEMPTION - Electricity Retail   Generation   Distribution   Transmission
TrustPower Australia Holdings Pty Ltd - Barunga Range	LICENCE - Electricity Generation 100kVA<5MW
Vibe Energy Pty Ltd	LICENCE - Electricity Generation 100kVA<5MW
Waterloo Wind Farm Pty Ltd – Waterloo Wind Farm	LICENCE - Electricity Generation 100MW < 200MW
Wattle Point Wind Farm Pty Ltd & AGL Hydro Partnership – Wattle Point Wind Farm	LICENCE - Electricity Generation 30MW < 100MW

### Gas

ENTITY NAME	LICENSING TYPE
AGL Wholesale Gas Ltd	EXEMPTION - Gas Retail
Elgas Limited	EXEMPTION - Gas Retail   Distribution
Envestra Ltd	LICENCE - Gas Distribution
Environmental Land Services (Aust) Pty Ltd	EXEMPTION - Gas Distribution
Origin Energy LPG Ltd	EXEMPTION - Gas Distribution

### Water

ENTITY NAME	LICENSING TYPE
Adelaide Hills Council	Licence – Water Retail Intermediate
Alano Utilities Pty Ltd	Licence – Water Retail Minor
Alexandrina Council	Licence – Water Retail Intermediate
Berri Barmera Council	Licence – Water Retail Intermediate
Cape Jaffa Anchorage Essential Services	Licence – Water Retail Minor
City of Onkaparinga (1) (Sewerage)	Licence – Water Retail Intermediate
City of Onkaparinga (2) (Water)	Licence – Water Retail Minor
City of Playford	Licence – Water Retail Minor



City of Port Adelaide Enfield	Licence – Water Retail Minor
City of Port Lincoln	Licence – Water Retail Minor
City of Salisbury	Licence – Water Retail Minor
City of Tea Tree Gully	Licence – Water Retail Intermediate
Clare and Gilbert Valley Council	Licence – Water Retail Intermediate
Coorong District Council	Licence – Water Retail Intermediate
District Council of Barunga West	Licence – Water Retail Intermediate
District Council of Ceduna	Licence – Water Retail Intermediate
District Council of Cleve (Arno Bay)	Licence – Water Retail Minor
District Council of Cleve (Cleve)	Licence – Water Retail Minor
District Council of Coober Pedy	Licence – Water Retail Minor
District Council of Copper Coast	Licence – Water Retail Intermediate
District Council of Elliston	Licence – Water Retail Minor
District Council of Franklin Harbour	Licence – Water Retail Minor
District Council of Grant	Licence – Water Retail Intermediate
District Council of Karoonda East Murray	Licence – Water Retail Minor
District Council of Kimba	Licence – Water Retail Minor
District Council of Lower Eyre Peninsula	Licence – Water Retail Intermediate
District Council of Loxton Waikerie	Licence – Water Retail Intermediate
District Council of Mallala	Licence – Water Retail Minor
District Council of Mount Barker	Licence – Water Retail Intermediate
District Council of Mount Remarkable	Licence – Water Retail Intermediate
District Council of Orroroo Carrieton	Licence – Water Retail Minor

District Council of Robe	Licence – Water Retail Intermediate
District Council of Streaky Bay	Licence – Water Retail Intermediate
District Council of Tumby Bay	Licence – Water Retail Intermediate
District Council of Yankalilla	Licence – Water Retail Intermediate
District Council of Yorke Peninsula	Licence – Water Retail Intermediate
F.B Pipeline Pty Ltd	Licence – Water Retail Minor
Kangaroo Island Council	Licence – Water Retail Intermediate
Kingston District Council	Licence – Water Retail Intermediate
Light Regional Council	Licence – Water Retail Intermediate
Mid Murray Council	Licence – Water Retail Intermediate
Municipal Council of Roxby Downs	Licence – Water Retail Intermediate
Naracoorte Lucindale Council	Licence – Water Retail Minor
Northern Areas Council	Licence – Water Retail Intermediate
Port Augusta City Council	Licence – Water Retail Intermediate
Port Pirie Regional Council	Licence – Water Retail Intermediate
Renmark Paringa Council	Licence – Water Retail Intermediate
Rural City of Murray Bridge	Licence – Water Retail Minor
SA Water	Licence – Water Retail Major
Tatiara District Council	Licence – Water Retail Intermediate
The Barossa Council	Licence – Water Retail Intermediate
The City of Charles Sturt	Licence – Water Retail Minor
The Flinders Ranges Council	Licence – Water Retail Minor
Wakefield Regional Council	Licence – Water Retail Intermediate

Water Utilities Australia Pty Ltd	Licence – Water Retail Minor
Wattle Range Council	Licence – Water Retail Intermediate
Wudinna District Council	Licence – Water Retail Minor

## APPENDIX 3: COMMISSION PUBLICATIONS

2012/13

WATER	DATE PUBLISHED
Consultation on Economic Regulation of the South Australian Water Industry – Fact Sheet	July 2012
Proposed Price Regulation for Water and Sewerage Service Providers other than SA Water – Discussion Paper, Appendices & Fact Sheet	July 2012
Economic Regulation of SA Water's Revenues - Statement of Approach	July 2012
Review of SA Water's Prices: 2013/14 - 2015/16 - Guidance Paper	July 2012
Water Advisory Bulletin (ABX/1) – Licensing Arrangements for the Water Industry	July 2012
Water Retail Code (WRC/01) – Draft & Fact Sheet	July 2012
Applying for a Water Retail Licence – Fact Sheet	July 2012
Compliance Monitoring and Reporting – Fact Sheet	July 2012
Water Industry Guideline No.1 (WG1/01) – Compliance Systems and Reporting – Draft	July 2012
Review of SA Water's Regulatory Business Proposal for the Revenue Determination Period 2013/14-2015/16 – Issues Paper & Fact Sheet	October 2012
Water Industry Guideline No.2 (WG2/01) – Water Regulatory Information Requirements – Draft & Explanatory Memorandum	November 2012
Water Consumer Protection Framework for Major Retailers – Fact Sheet	November 2012
Water Retail Code (WRC-MR/01) - Major Retailers – Final, Final Decision & Explanatory Memorandum	November 2012
Water Industry Guideline No.2 (WG2/01) - Water Regulatory Information Requirements & Explanatory Memorandum	December 2012
Economic Regulation of Intermediate and Minor Retailers of Water and Sewerage Services – Draft Price Determination and Consumer Protection Framework	February 2012
Economic Regulation of Minor and Intermediate Water Retailers – Fact Sheet	February 2013
Water Retail Code - Intermediate Retailers (WRC-IR/01) - Draft	February 2013

Water Retail Code - Minor Retailers (WRC-MiR/01) - Draft	February 2013
SA Water's Water and Sewerage Revenues 2013/14 - 2015-16 – Draft Determination, Statement of Reasons and Fact Sheet	February 2013
Water Industry Guideline No.2 (WG2/02) - Water Regulatory Information Requirements for Major Retailers – Draft Amendments & Fact Sheet	April 2013
Water Industry Guideline No.3 (WG3/01) – Water Regulatory Information for Intermediate and Minor Retailers – Draft & Fact Sheet	April 2013
SA Water's Water and Sewerage Revenues 2013/14-2015/16 - Final Determination, Statement of Reasons & Fact Sheet	May 2013
SA Water Service Standards 2013/14-2015/16 - Draft Decision	May 2013
Economic Regulation of Minor and Intermediate Retailers of Water and Sewerage Services – Final Decision & Fact Sheet	June 2013
Water Industry Guideline No.1 (WG1/2) – Compliance Systems and Reporting	June 2013
Water Industry Guideline No.3 (WG3/01) – Water Regulatory Information Requirements for Minor and Intermediate Retailers & Explanatory Memorandum	June 2013
Water Retail Code (WRC-MiR/01) – Minor and Intermediate Retailers & Explanatory Memorandum	June 2013
Report on Costs and Benefits of Installing Water Meters in Public Housing – Report	June 2013
<b>ENERGY</b>	
South Australian Household Expenditure on Utilities Report 2011-12	November 2012
Annual Performance Report 2011-12 – Reports 1 to 8	November 2012
Energy Advisory Bulletin No. 4 (AB4/7) – Licensing Arrangements for the Electricity and Gas Supply Industries	February 2013
Information Disclosure for No Early Termination Fee Market Contracts – Fact Sheet	March 2013
Post National Energy Customer Framework Review of Regulatory Instruments – Fact Sheet	March 2013
Energy Industry Guideline No.4 (EG4/4) – Compliance Systems and Reporting - Draft	May 2013
Information Disclosure for No Early Termination Fee Market Contracts – Draft Decision & Bulletin	May 2013

Post National Energy Customer Framework Review of Regulatory Instruments – Draft Decision	May 2013
Prepayment Meter System Code (PMSC/02) – Draft	May 2013
Energy Retail Performance Report - July – December 2012 – Reports 1 to 4	June 2013
<b>ELECTRICITY</b>	
Switching Manual (Revision 3)	September 2012
2011-2014 Electricity Standing Contract Price Determination Wholesale Electricity Cost Investigation - Draft Determination & Fact Sheet	October 2012
Electricity Distribution Code (EDC/10)	February 2013
Electricity Metering Code (EMTC/08)	February 2013
2013 Determination of Solar Feed-In Tariff Premium - Draft Price Determination & Fact Sheet	March 2013
SA Power Networks Service Standard Framework for 2015-2020 Regulatory Period – Issues Paper	March 2013
Electranet's Proposed Amendments to Revised Electricity Transmission Code - Draft Decision	April 2013
Electricity Distribution Code (EDC/11) – Draft	May 2013
Electricity Industry Guideline No.1 (GI/10) - Electricity Regulation Information Requirements – Distribution – Draft	May 2013
Variation to 2012 Determination of Solar Feed-in Tariff Premium - Price Determination, Statement of Reasons & Fact Sheet	June 2013
Review of The Solar Feed-in Tariff Premium - Issues Paper	June 2013
<b>PLEC</b>	
PLEC Project Streetscaping	October 2012
PLEC Annual Report 2011/12	October 2012
PLEC Project Guidelines	December 2012
<b>GAS</b>	
Regulatory Arrangements for Reticulated LPG Networks - Draft Decision	October 2012
Reticulated LPG Industry Code (RLIC/01) – Draft	October 2012

Liquefied Petroleum Gas Distribution Licence – Draft	October 2012
Liquefied Petroleum Gas Retail Licence – Draft	October 2012
Gas Metering Code (GMC/04)	February 2013
Gas Distribution Code (GDC/05)	February 2013
Regulatory Arrangements for Reticulated LPG Networks - Final Decision	April 2013
Reticulated LPG Industry Code (RLIC/01) - Final	April 2013
Liquefied Petroleum Gas Distribution Licence - Final	April 2013
Liquefied Petroleum Gas Retail Licence - Final	April 2013
Gas Distribution Code (GDC/06) – Draft	May 2013
Gas Industry Guideline No.1 (GIG 1/5) - Gas Regulatory Information Requirements - Distribution System –Draft	May 2013
<b>RESIDENTIAL ENERGY EFFICIENCY SCHEME</b>	
Residential Energy Efficiency Scheme Bulletin No.3 (REESB3/2) – Timing Of Reporting Home Energy Audits And Energy Efficiency Activity	July 2012
Residential Energy Efficiency Scheme Bulletin No.4 (REESB4/2) – Installation Of Water Heaters And Low-Flow Showerheads	July 2012
Residential Energy Efficiency Scheme Bulletin No.5 (REESB5/2) – Installation Of Ceiling Insulation	July 2012
Residential Energy Efficiency Scheme Bulletin No.6 (REESB6/2) – Consumer Protection Obligations	July 2012
Residential Energy Efficiency Scheme Bulletin No.7 (REESB7/3) – Household Addresses Without A Delivery Point Identifier	July 2012
Residential Energy Efficiency Scheme Bulletin No.9 (REESB9/2) – Retailer File Validation System (REES-R) – Compliance Enhancements – CFL Lighting Specification	July 2012
Residential Energy Efficiency Scheme Bulletin No.10 (REESB10/2) – Standby Power Controllers	July 2012
Residential Energy Efficiency Scheme Bulletin No.11 (REESB11/2) – Mandatory Training Requirements	July 2012
Residential Energy Efficiency Scheme Code Proposed Amendments – Draft Decision	July 2012

Residential Energy Efficiency Scheme Bulletin No.13 (REESB13/1) – Electronic Activity And Audit Records	July 2012
Residential Energy Efficiency Scheme Code (REESC/05) – Draft	July 2012
Energy Efficiency Fund Initiative - Fact Sheet, Grant Application & Application Guidelines	September 2012
Residential Energy Efficiency Scheme Code - New Activities & Miscellaneous - Proposed Amendments – Draft Decision & Fact Sheet	September 2012
Residential Energy Efficiency Scheme Code - New Activities & Miscellaneous - Proposed Amendments – Final Decision & Fact Sheet	December 2012
Residential Energy Efficiency Scheme Code (REESC/06)	February 2013
Energy Efficiency Fund Initiative – Fact Sheet, Grant Application & Application Guidelines	April 2013
Residential Energy Efficiency Scheme Annual Report – Administration Of The Scheme In 2012 & Report Card	June 2013
<b>RAIL</b>	
South Australian Rail Regulation Annual Report 2011/12	November 2012
Tarcoola-Darwin Rail Regulation Annual Report 2011/12	November 2012
<b>PORTS</b>	
2012 Ports Pricing and Access Review - Final Report	October 2012
2012 Ports Price Determination - Final Price Determination	October 2012
<b>CORPORATE GOVERNANCE</b>	
Charter of Consultation and Regulatory Practice	September 2012
ESCOSA Annual Report 2011/12	November 2012
Enforcement Policy (Version 2.5) – Draft	May 2013



## APPENDIX 4: HUMAN RESOURCE STATISTICAL INFORMATION

*As at the last pay period in June 2013*

Note: all data excludes employees on LWOP.

**Table 7: Executive Employees by Appointment Type, Gender and Classification**

	CONTRACT UNTENURED			OTHER (PART TIME)			TOTAL		
	M	F	Total	M	F	Total	M	F	Total
Level A	0	0	0	0	0	0	0	0	0
Level B	2	1	3	0	0	0	2	1	3
Level D	1	0	1	0	0	0	1	0	1
<b>Total Executive</b>	3	1	4	0	0	0	3	1	4

**Table 8: Other Employees by Appointment Type, Gender and Salary Bracket**

Salary Bracket	ONGOING			LONG TERM CONTRACT			SHORT TERM CONTRACT			CASUAL			TOTAL		
	M	F	Total	M	F	Total	M	F	Total	M	F	Total	M	F	Total
\$0 - \$53,199	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
\$53,200 - \$67,699	2	7	9	0	0	0	0	0	0	0	0	0	2	7	9
\$67,700 - \$86,599	1	3	4	0	0	0	0	0	0	2	0	2	3	3	6
\$86,600 - \$109,299	3	2	5	0	0	0	1	0	1	0	0	0	4	2	6
\$109,300+	2	0	2	0	0	0	0	0	0	0	0	0	2	0	2
<b>Total</b>	<b>8</b>	<b>12</b>	<b>20</b>	0	0	0	1	0	1	2	0	2	11	12	23

**Table 9: Commission key employment details**

	Ongoing & Contract	Casual	Total
Persons	25	2	27
Full Time Equivalents	23.56	1.6	25.16
Positions vacant	0	0	0
Ave Full Time Equivalent 2012/13	22.61	0	22.61
<b>% Persons</b>			
Male	44.44	7.41	51.85
Female	48.15	0	48.15
<b>% Full Time Equivalents</b>			
Male	46.10	6.36	52.46
Female	47.54	0	47.54
Number of persons separated from ESCOSA	4	0	4
Number of persons recruited	5	1	6
Number of persons on leave without pay	3	0	3

**Table 10: Diversity**

	M	F	Total	% Persons	% SA Community*
Number of employees born overseas	4	3	7	25.93	22.1
Number of employees who speak language(s) other than English at home	0	1	1	3.7	14.4
Number of Aboriginal and/or Torres Strait Islander employees	0	0	0	0	unknown
Number of employees with a Disability	0	0	0	0	unknown

\* Benchmarks from ABS Publication Basic Community Profile (SA) Cat No. 2001.0, 2011 census

**Table 11: Commission age profile**

Age Group (years)	Number of Persons			% Persons	% 2013 Workforce Benchmark*
	Male	Female	Total		
15-19	0	0	0	0	6.2
20-24	1	1	2	7.41	9.7
25-29	0	4	4	14.81	10.9
30-34	0	2	2	7.41	9.8
35-39	3	2	5	18.52	10.1
40-44	1	1	2	7.41	11.8
45-49	4	0	4	14.81	11.2
50-54	2	1	3	11.11	11.3
55-59	2	1	3	11.11	9.0
60-64	1	1	2	7.41	6.1
65+	0	0	0	0	3.7
Total	14	13	27	100	100

\* Source: ABS Australian Demographic Statistics, 6291.0.55.001 Labour Force Status (ST LM8) by sex, age, state, marital status - employed - total from Feb78 Supertable, South Australia at Feb 2013

**Table 12: Voluntary Flexible Working Arrangements by Gender**

	MALE	FEMALE	TOTAL
Purchased Leave	1	0	1
Part Time	2	3	5
Job Share	0	0	0
Work from Home	0	0	0

Note: Compressed Weeks and Flexitime are not offered by the Commission

**Table 13: Performance Development**

Employees with ...	Persons	% Total Workforce
A plan reviewed within the past 12 months	25	92.6%
A plan older than 12 months	1	3.7%
No plan	1	3.7%

**Table 14: Average days leave taken per full time equivalent**

LEAVE TYPE	2012/13	2011/12	2010/11	2009/10
Special Leave With Pay	1.0	1.1	1.0	0.2
Sick Leave	10.4	12.7	6.1	3.9
Family Carer's Leave	1.6	1.2	1.3	1.3
Total Sick/Carer's Leave	12.0 <sup>#</sup>	13.9 <sup>#</sup>	7.3	5.2
Public Sector average Sick/Carer's leave days taken per Full Time Equivalent	N/A*	9.1	9.8	9.4

\* Public Sector Average sick leave figure not available at time of publication.

<sup>#</sup> Note: Total Sick/Carer's Leave outcomes were impacted by the long-term sick leave of one staff member. If leave taken by this employee is removed, the average total days of sick/carers leave taken per full time equivalent are 8.0 for 2012/13 and 10.2 for 2011/12.

**Table 15: Training Expenditure**

TRAINING AND DEVELOPMENT	TOTAL COST	% OF TOTAL SALARY EXPENDITURE
Total training and development expenditure	\$120,165	3.6%
Total leadership and management development expenditure	\$15,875	0.5%

**Table 16: Work Health, Safety and Injury Management Statistics**

	2012/13	2011/12	2010/11
Average number of people employed (Full Time Equivalent)	22.61	21.5	21.0
<b>OHS Legislative Obligations</b>			
Number of notifiable occurrences pursuant to Work Health and Safety Act Part 3	0	0	0
Number of notifiable injuries pursuant to Work Health and Safety Act Part 3	0	0	0
Number of notices served pursuant to Work Health and Safety Act Section 90, 191 and 195 (Provisional improvement, improvement and prohibition notices)	0	0	0
Injury management legislative requirements	0	0	0
Total number of employees who participated in rehabilitation programs	0	0	0
Total number of employees rehabilitated and reassigned to alternative duties	0	0	0
Total number of employees rehabilitated back to their original work	0	0	0
<b>Work Cover action Limits</b>			
Number of open claims	0	0	0
Percentage of workers compensation expenditure over gross annual remuneration	0	0	0
<b>Number of Claims</b>			
Number of new workers compensation claims in the financial year	0	0	0
Number of fatalities, lost time injuries, medical treatment only	0	0	0
Total number of working days lost	0	0	0
<b>Cost of Workers Compensation</b>			
Cost of new claims for financial year	\$0	\$0	\$0
Cost of all claims excluding lump sum payments	\$0	\$0	\$0
Cost of lump sum payments (ss 42, 43 & 44)	\$0	\$0	\$0
Total amount recovered from external sources (s54)	\$0	\$0	\$0
Budget allocation for workers compensation levy	\$1499	\$1597	\$1395
<b>Meeting Targets</b>			
Nil Workers compensation claims	YES	YES	YES
Sick leave below public sector average	N/A*	NO	YES
Work Health and Safety policies implemented as scheduled	100%	100%	100%
Work Health and Safety training program in place	Yes	Yes	Yes
Workplace inspections are up to date	Yes	Yes	Yes

\* Public Sector Average sick leave figure not available at time of publication.

## APPENDIX 5: FINANCIAL STATEMENTS AND INDEPENDENT AUDIT REPORT

# **ESSENTIAL SERVICES COMMISSION**

## **FINANCIAL STATEMENTS**

**for the year ended 30 June 2013**

**Certification of the Financial Statements**

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We certify that the attached general purpose financial statements for the Essential Services Commission:

- comply with relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian Accounting Standards;
- are in accordance with the accounts and records of the Commission; and
- present a true and fair view of the financial position of the Essential Services Commission as at 30 June 2013 and the results of its operation and cash flows for the financial year.

We certify that the internal controls employed by the Essential Services Commission for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period and there are reasonable grounds to believe the authority will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Commission.



John Hill  
ACTING CHAIRPERSON  
27 September 2013



Paul Kerin  
CHIEF EXECUTIVE OFFICER  
27 September 2013



Nick Mahon  
MANAGER, FINANCE AND INFORMATION TECHNOLOGY  
27 September 2013





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**Statement of Comprehensive Income for the year ended 30 June 2013**

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	Note	<b>2013</b> <b>\$'000</b>	2012 \$'000
<b>INCOME</b>			
Revenues from licence and administration fees	5	<b>5 746</b>	3 346
Contributions from SA Government	6	<b>324</b>	550
Revenue from services	7	<b>11</b>	2 233
Other income	8	<b>30</b>	1
<b>Total Income</b>		<b>6 111</b>	6 130
<b>EXPENSES</b>			
Employee benefits expense	9	<b>3 470</b>	3 243
Supplies and services	10	<b>2 204</b>	1 605
Refunds	11	<b>551</b>	—
Payments to SA Government	12	<b>1 545</b>	—
Depreciation and amortisation expense	13	<b>59</b>	85
<b>Total Expenses</b>		<b>7 829</b>	4 933
<b>NET RESULT</b>		<b>(1 718)</b>	1 197
<b>TOTAL COMPREHENSIVE RESULT</b>		<b>(1 718)</b>	1 197

**THE NET PROFIT AND TOTAL COMPREHENSIVE RESULT ARE ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER.**

The above Statement should be read in conjunction with the accompanying notes.

Statement of Financial Position as at 30 June 2013

	Note	2013 \$'000	2012 \$'000
<b>CURRENT ASSETS</b>			
Cash	24	9 852	10 127
Receivables	15	1 391	2 120
<b>Total Current Assets</b>		<b>11 243</b>	<b>12 247</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	16	563	23
Intangible assets	17	68	113
<b>Total Non-Current Assets</b>		<b>631</b>	<b>136</b>
<b>TOTAL ASSETS</b>		<b>11 874</b>	<b>12 383</b>
<b>CURRENT LIABILITIES</b>			
Payables	18	1 167	213
Employee benefits	19	300	272
Other current liabilities	20	123	3
<b>Total current liabilities</b>		<b>1 590</b>	<b>488</b>
<b>NON-CURRENT LIABILITIES</b>			
Payables	18	45	34
Employee benefits	19	482	389
Other non-current liabilities	20	3	—
<b>Total Non-Current Liabilities</b>		<b>530</b>	<b>423</b>
<b>TOTAL LIABILITIES</b>		<b>2 120</b>	<b>911</b>
<b>NET ASSETS</b>		<b>9 754</b>	<b>11 472</b>
<b>EQUITY</b>			
Retained earnings	27	9 754	11 472
<b>TOTAL EQUITY</b>		<b>9 754</b>	<b>11 472</b>

**TOTAL EQUITY IS ATTRIBUTED TO THE SA GOVERNMENT AS OWNER.**

Unrecognised contractual commitments 21

Contingent Assets and Liabilities 22

The above Statements should be read in conjunction with the accompanying notes.



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**Statement of Changes in Equity for the year ended 30 June 2013**

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	<b>Retained Earnings</b>
	<b>\$'000</b>
<b>Balance at 30 June 2011</b>	10 275
Net result for 2011-12	1 197
<b>Restated balance at 30 June 2012</b>	<u>11 472</u>
Net result for 2012-13	<b>(1 718)</b>
Total comprehensive result for 2012-13	<u><b>(1 718)</b></u>
<b>Balance at 30 June 2013</b>	<u><b>9 754</b></u>

**ALL CHANGES IN EQUITY ARE ATTRIBUTED TO THE SA GOVERNMENT AS OWNER.**

The above Statements should be read in conjunction with the accompanying notes.

## Statement of Cash Flows for the year ended 30 June 2013

	Note	2013 \$'000	2012 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash Inflows</b>			
Receipts from licence fees		6 470	2 629
Receipts of grants and contributions		324	550
Receipts from other services		11	2 233
Other receipts		30	1
<b>Cash generated from operations</b>		<b>6 835</b>	<b>5 413</b>
<b>Cash Outflows</b>			
Payments for employee benefit		(3 271)	(3 121)
Payments for supplies and services		(2 206)	(1 581)
Payments for refunds		—	—
Payments for SA Government		(1 544)	—
<b>Cash used in operations</b>		<b>(7 021)</b>	<b>(4 702)</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	24	<b>( 186)</b>	<b>711</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash Outflows</b>			
Purchase of property, plant and equipment		( 89)	—
Purchase of intangible assets		—	( 61)
<b>Cash used in Investing Activities</b>		<b>( 89)</b>	<b>( 61)</b>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>( 89)</b>	<b>( 61)</b>
<b>NET (DECREASE) / INCREASE IN CASH</b>		<b>( 275)</b>	<b>650</b>
Cash at the beginning of the period		10 127	9 477
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	24	<b>9 852</b>	<b>10 127</b>

The above Statements should be read in conjunction with the accompanying notes.

**Notes to and forming part of the Financial Statements**

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## Notes to and forming part of the Financial Statements

**Note 1 Objectives of the Essential Services Commission**

The Essential Services Commission is a statutory authority established as a general independent regulator under the *Essential Services Commission Act 2002 (ESC Act)*. The ESC Act is committed to the Treasurer.

The Commission's role encompasses industries providing essential services as specified in the ESC Act, including electricity, gas, maritime, rail, water and sewerage services. Its primary objective, as specified in the ESC Act, is to protect the long-term interests of South Australian consumers of essential services with respect to price, reliability and quality of those services.

The ESC Act specifies a general set of functions for the Commission. However, the specific roles of the Commission are assigned to it under industry legislation, refer to Note 4.

- Regulate prices and perform licensing and other functions under relevant industry regulation Acts;
- Monitor and enforce compliance with and promote improvement in standards and conditions of service and supply under relevant industry regulation Acts;
- Make, monitor the operation of, and review from time to time, codes and rules relating to the conduct or operations of a regulated industry or regulated entities;
- Provide and require consumer consultation processes in regulated industries and assist consumers and others with information and other services;
- Advise the Minister on any matter referred by the Minister;
- Administer the ESC Act;
- Perform functions assigned to the Commission under the ESC or any other Act;
- In appropriate cases, prosecute offences against the ESC Act or a relevant industry regulation Act.

**Note 2 Summary of Significant Accounting Policies****2.1 (a) Statement of compliance**

The financial statements are general purpose financial statements. The accounts have been prepared in accordance with applicable Australian Accounting Standards (AAS) and Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*.

The Commission has applied AAS that are applicable to not-for-profit entities, as the Commission is a not-for-profit entity.

AAS and interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Commission for the reporting period ending 30 June 2013. Refer to Note 3.

**(b) Basis of preparation**

The preparation of the financial statements requires:

- the use of certain accounting estimates and requires management to exercise its judgement in the process of applying the Commission's accounting policies. The areas involving a higher degree of judgement or where assumptions and estimates are significant to the financial statements are outlined in the applicable notes;
- accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported; and
- compliance with Accounting Policy Statements issued pursuant to section 41 of the *Public Finance and Audit Act 1987*. In the interest of public accountability and transparency the accounting policy statements require the following note disclosures, which have been included in this financial report:
  - a) revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government as at reporting date, classified according to their nature. A threshold of \$100 000 for separate identification of these items applies;
  - b) expenses incurred as a result of engaging consultants (as reported in the Statement of Comprehensive Income);
  - c) employees whose normal remuneration is equal to or greater than the base executive remuneration level (within \$10 000 bandwidths) and the aggregate of the remuneration paid or payable or otherwise made available, directly or indirectly by the entity to those employees.

The Commission's Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with historical cost convention.

The Statement of Cash Flow has been prepared on a cash basis.

The financial statements have been prepared based on a twelve month period and are presented in Australian currency.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2013 and the comparative information presented.

**(c) The Reporting Entity**

The financial statements and accompanying notes cover the Essential Services Commission as an individual reporting entity. The Essential Services Commission is a Statutory Authority of the State of South Australia, established pursuant to the *Essential Services Commission Act 2002*.

The Commission utilises the banking arrangements of the Department of Treasury and Finance under a Service Level Agreement. A non interest bearing Special Deposit Account entitled "Essential Services Commission Operating Account" is used for the purpose of recording all of the financial transactions of the Essential Services Commission, including the collection of licence fees.

**(d) Administered Resources**

The Commission receives licence fees which include resources on behalf of the South Australian Government. The Commission is accountable for the collection and banking of those administered resources, but does not have the discretion to deploy the resources for the achievement of the Commission's objectives other than in accordance with its approved Budget or prior approval of the Treasurer. The receipt of these administered resources is not recognised as revenue. Instead, the receipt and subsequent transfer of these items to Consolidated Account is disclosed in Notes 5 and 28. The accrual basis of accounting has been used in accounting for administered resources.

**2.2 Comparative Information**

The presentation and classification of items in the financial statements are consistent with prior periods except where specific accounting standards and/or accounting policy statements have required a change.

Where presentation or classification of items in the financial statements have been amended, comparative figures have been adjusted to conform to changes in presentation or classification in these financial statement unless impracticable.

Where the Commission has applied an accounting policy retrospectively, retrospectively restated items in the financial statements, The restated comparative amounts do not replace the original financial statements for the preceding period.

**2.3 Rounding**

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000).

**2.4 Taxation**

The Commission is not subject to income tax. The Commission is liable for payroll tax, fringe benefits tax, and goods and services tax.

Income, expenses and assets are recognised net of the amount of GST except where the amount of GST incurred by the Commission as a purchaser is not recoverable from the Australian Taxation Office. Accounts receivable and payable are stated with the amount of GST included.

GST payable and recoverable from the ATO is managed via the Department of Treasury and Finance under the Commission's existing Service Level Agreement (SLA) and is not reported in these statements for 2012-13.

**2.5 Events after the reporting period**

Adjustments are made to amounts recognised in the financial statements, where an event occurs after 30 June and before the date the financial statements are authorised for issue, where those events provide information about conditions that existed at 30 June.

Note disclosure is made about events between 30 June and the date the financial statements are authorised for issue where the events relate to a condition which arose after 30 June and which may have a material impact on the results of subsequent years.

**2.6 Income**

Income is recognised to the extent that it is probable that the flow of economic benefits to the Commission will occur and can be reliably measured.

Income has been aggregated according to its nature, and has not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

The notes accompanying the financial statements disclose income where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature. A threshold of \$100 000 for separate identification of these items applies.

The following are specific recognition criteria:

**(a) Licence Fees**

Licence fees are measured at the fair value of consideration received or receivable. Gross licence fee revenue is derived from charges imposed on regulated industry participants by the relevant Ministers under the relevant Acts which specify: 'A 'person' is not entitled to the issue of a licence unless the person first pays to the Commission the annual licence fee, or the first instalment of the annual licence fee'. Licence fee revenue is recognised when it is received or receivable. Unearned revenue is recognised where cash is received by the Commission for licence fees prior to the date of renewal of the licence.

**(b) Administration Fees**

Administration fees are measured at the fair value of consideration received or receivable. Gross administration fee revenue is calculated in accordance with regulations under the relevant Acts that represents a reasonable contribution towards administration costs. Administration fee revenue is recognised when it is received or receivable.

**(c) Contributions from SA Government**

Contributions received from the SA Government are recognised as revenue upon receipt of the contribution.

**(d) Penalty Fees**

Funds received by way of a Residential Energy Efficiency Scheme (REES) penalty notice are recognised as revenue upon receipt of the contribution.

## 2.7 Expenses

Expenses are recognised to the extent that it is probable that the flow of economic benefits from the Commission will occur and can be reliably measured.

Expenses have been aggregated according to their nature and have not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

The notes accompanying the financial statements disclose expenses where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature. A threshold of \$100 000 for separate identification of these items applies.

The following are specific recognition criteria:

Employee benefits expenses

Employee benefit expenses include all costs related to employment including wages and salaries and leave entitlements. These are recognised when incurred.

Superannuation

The amount charged to the Statement of Comprehensive Income represents the contributions made by the Commission to the superannuation plan in respect of current services of current Commission staff. The Department of Treasury and Finance centrally recognises the superannuation liability in the whole of government financial statements.

Depreciation and Amortisation

All non-current assets having limited useful life are systematically depreciated over their useful lives in a manner that reflects the consumption of their service potential. Amortisation is used in relation to intangible assets such as software, while depreciation is applied to tangible assets such as plant and equipment.

Assets' residual values, useful lives and amortisation methods are reviewed and adjusted if appropriate, on an annual basis. No adjustments were made during the reporting period.

Depreciation/amortisation is calculated on a straight line basis over the estimated useful life of the following classes of assets as follows:

Class of Asset	Depreciation/Amortisation Method	Useful Life
Leasehold improvements	Straight Line	Life of lease
Furniture and fittings	Straight Line	3 -10 years
Office equipment - IT	Straight Line	3 -5 years
Office equipment - Other	Straight Line	3 -5 years
Intangibles	Straight Line	3 -5 years

Payments to SA Government

Payments to the SA Government include the return of contributions not required for interstate rail industry regulation and the return of budget surpluses contributed by grant funding in respect of previous years.

## 2.8 Current and Non-Current Classification

Assets and liabilities are characterised as either current or non-current in nature. The Commission has a clearly identifiable operating cycle of 12 months. Therefore assets and liabilities that will be realised as part of the normal operating cycle will be classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.



## 2.9 Assets

Assets have been classified according to their nature and have not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

The notes accompanying the financial statements disclose financial assets where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature.

### Special Deposit Account

The Commission records all transactions in a Special Deposit Account (SDA) established by the Treasurer in accordance with the *Public Finance and Audit Act 1987*. The Commission may only utilise the reported balance in the SDA in accordance with its approved Budget or with prior approval of the Treasurer.

### Penalty Fees

Pursuant to the Electricity Act and Regulations, funds received by way of a REES penalty notice must be applied in a specific manner by the Commission. If an amount is recovered as a shortfall penalty, it must be applied under a scheme established by the Commission to assist persons who may have failed to benefit from activities relating to energy efficiency on account of any electricity retailer's energy efficiency shortfall or to support other programs or activities to promote or support energy efficiency or renewable energy initiatives within South Australian households.

### Cash

Cash recorded in the Statement of Financial Position includes cash on hand and on deposit. Cash on deposit comprises funds in the Commission's non interest bearing SDA entitled 'Essential Services Commission Operating Account'. Cash is measured at its nominal value.

### Receivables

Receivables include amounts receivable from licences, goods and services, prepayments and other accruals.

Licence fees are invoiced prior to the due date (annual anniversary date) and are payable in advance of the regulatory period to which they relate. Control over assets acquired from licence fees is obtained on the licence anniversary date. Licence fee revenue received in advance is recognised as unearned revenue (liability) in the Statement of Financial Position.

### Non-Current Assets Acquisition and Recognition

Non-current assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition. Non-current assets are subsequently measured at fair value less accumulated depreciation.

Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Statement of Financial Position.

All non-current tangible and intangible assets with a value equal to or in excess of \$10 000 are capitalised.

### Revaluation of Non-Current Assets

The Commission has not undertaken the revaluation of any non-current assets or any group of assets.

### Impairment

All non-current tangible assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. An amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

Impairment is generally limited to a situation in which an asset's depreciation is materially understated or where the replacement cost is falling.

### Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. The Commission only has intangible assets which have been 'separately acquired' and have finite lives. The amortisation period and the amortisation method for intangible assets is reviewed on an annual basis.

## 2.10 Liabilities

Liabilities have been classified according to their nature and have not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

The notes accompanying the financial statements disclose financial liabilities where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature.

### Payables

Payables include creditors, accrued expenses and employment on-costs.

All payables are measured at their nominal amount, are unsecured and are normally settled within 30 days from the date of the invoice or date the invoice is received.

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of the Department for SA Service Delivery.

Accrued expenses represents the aggregate of amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period and where an invoice has not been received.

Employee benefits on-costs include superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave, annual leave and skills and experience retention leave.

The Commission makes contributions to several State Government and externally managed superannuation schemes. These contributions are treated as an expense when they are paid. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation scheme.

### Employee Benefits

These benefits accrue for employees as a result of services provided up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term employee benefits are measured at their nominal amounts.

#### *Salaries, wages, annual leave, skills and experience retention leave and sick leave*

The annual leave liability is expected to be payable within twelve months and is measured at the undiscounted amount expected to be paid.

No provision has been made for sick leave as all sick leave is non-vesting and it is assumed that the average sick leave to be taken in future years will be less than the annual entitlement.

#### *Long service leave*

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

The estimated liability for long service leave is based on actuarial assumptions over expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data over SA government entities across government. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with durations that match, as closely as possible, the estimated future cash outflows.

The current/non-current classification of the Commission's long service leave liabilities has been calculated based on historical usage patterns. The estimation of short term and long term long service leave liabilities is based on the Commission's past experience.

## 2.11 Operating Leases

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. The lessor effectively retains all risks and benefits incidental to ownership of the items held under the operating leases. The straight-line basis is representative of the pattern of benefits derived from the leased assets.

## 2.12 Unrecognised contractual commitments and contingent assets and liabilities

Commitments include those operating and outsourcing commitments arising from contractual or statutory sources and are disclosed at their nominal value.

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

Unrecognised contractual commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to the Australian Taxation Office. If GST is not payable to, or recoverable from the Australian Taxation Office, the commitments and contingencies are disclosed on a gross basis.

### 2.13 Insurance

All of the Commission's major risks are insured through the SAICORP Division of the South Australian Government Financing Authority (SAFA). An excess is payable in respect of all claims.

#### Note 3 New and revised accounting standards and policies

The Commission did not voluntarily change any of its accounting policies during 2012-13.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, have not been adopted by the Commission for the period ending 30 June 2013. The Commission has assessed the impact of the new and amended standards and interpretations and considers there will be no impact on the accounting policies or the financial statements of the Commission.

#### Note 4 Activities of the Commission

The Commission is the independent economic regulator of essential services in South Australia (SA), with key responsibilities in the electricity, gas, maritime, rail, water and wastewater industries. The activities of the Commission include licensing, performance monitoring and price regulation. The Commission also administers the South Australian Residential Energy Efficiency Scheme and provides advice as required to the State Government on regulatory matters. The ESC Act specifies a general set of functions for the Commission. However, the specific roles of the Commission are assigned to it under industry legislation. The following table summarises such roles as at June 2013 by activity.

Sector	Legislation	Regulatory Tasks
Electricity	<i>Electricity Act 1996</i>	Licensing of specified electricity operations (generation, transmission, distribution and off-grid) in SA, network reliability standard-setting, solar photovoltaic feed-in price regulation (retailer payments only), preparation and publication of Ministerial reports on energy retail prices, Residential Energy Efficiency Scheme administration, performance monitoring.
Gas	<i>Gas Act 1997</i>	Licensing of specified gas operations (distribution [natural and LPG] and retail [LPG only]) in SA, preparation and publication of Ministerial reports on energy retail prices, Residential Energy Efficiency Scheme administration, performance monitoring.
Rail	<i>AustralAsia Railway (Third Party Access) Act 1999; Railway (Operations and Access) Act 1997</i>	Access regulation for the Tarcoola–Darwin railway and specified intra-state rail lines.
Ports	<i>Maritime Services (Access) Act 2002</i>	Pricing and access regulation for specified port services.
Water	<i>Water Industry Act 2012</i>	Licensing of water and wastewater retail operations in SA, consumer protection, retail price regulation, performance monitoring.

**Note 5 Revenue from licence and administration fees**

				2013 \$'000	2012 \$'000
	Electricity	Gas	Water		
Licence fees	6 523	2 715	3 362	12 600	9 321
Administration fees	240	80	—	320	—
Administered Items*	(4 344)	(1 980)	( 850)	(7 174)	(6 219)
Penalty Fees	—	—	—	—	244
<b>Total</b>	<b>2 419</b>	<b>815</b>	<b>2 512</b>	<b>5 746</b>	<b>3 346</b>

As a result of legislative changes licencing by the Commission of energy retailers ceased on 31 January 2013. An administration fee applied to energy retailers from 1 February 2013 to fund the Commissions remaining retail energy activities. The Commission became the economic regulator of the water industry from 1 January 2013 and issued water licences for the first time.

\* Refer Note 28 Administered items.

**Note 6 Contributions from SA Government**

	2013 \$'000	2012 \$'000
Recurrent contribution from SA Government	324	550
<b>Total Contributions from SA Government</b>	<b>324</b>	<b>550</b>

**Note 7 Revenue from services**

	2013 \$'000	2012 \$'000
Contribution for water and wastewater activities	—	2 200
Contribution to Rail regulatory costs by Northern Territory Government	11	33
<b>Total Revenue from services</b>	<b>11</b>	<b>2 233</b>

**Revenue from services received/receivable from entities within the SA Government**

Contribution for water and wastewater activities	—	2 200
<b>Total Revenue from services received/receivable from entities within the SA Government</b>	<b>—</b>	<b>2 200</b>

**Note 8 Other income**

Other income*	30	1
<b>Total Other income</b>	<b>30</b>	<b>1</b>

\* An amount of \$28 816 (\$0) was received from AGL to meet Commission legal fees in relation to settlement of legal proceedings.

**Note 9 Employee benefits expense**

	2013 \$'000	2012 \$'000
Salaries and wages	2 359	2 135
Long service leave	105	180
Annual leave	221	194
Skill and Experience retention leave	2	—
Employment on costs - superannuation	472	394
Employment on costs - other	131	125
Board and Committee fees*	93	100
Other employee related expenses	87	115
<b>Total Employee benefit expenses</b>	<b>3 470</b>	<b>3 243</b>

\* Board and Committee fees only include direct payment to members. Superannuation payments including salary sacrifice payments are included under Employment on costs - superannuation. See Note 23 for details of remuneration for Board and Committee members.

**Remuneration of Employees**

	2013 Number of Employees	2012 Number of Employees
The number of employees whose remuneration received or receivable falls within the following bands:		
\$168 000 - \$177 999*	—	1
\$178 000 - \$187 999	—	1
\$188 000 - \$197 999	1	—
\$208 000 - \$217 999	—	1
\$218 000 - \$227 999	—	1
\$228 000 - \$237 999	1	—
\$238 000 - \$247 999	1	—
\$288 000 - \$297 999	—	1
\$328 000 - \$337 999	1	—
<b>Total Number of Employees</b>	<b>4</b>	<b>5</b>

**Note 9 Employee benefits expense (continued)**

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year. Remuneration of employees reflects all costs of employment including salaries and wages, payment in lieu of leave, superannuation contributions, fringe benefits tax and any other salary sacrifice benefits. The total remuneration received by these employees for the year was \$1 000 299 (\$1 084 641).

\* The band has been included for the purpose of reporting comparative figures based on the executive base level remuneration rate for 2012-13.

**Related Party Disclosure:** All amounts provided by the Commission to related parties are provided on arms length terms.

**Note 10 Supplies and services**

	2013 \$'000	2012 \$'000
Accommodation	473	258
General administration	603	591
Information technology charges	138	157
Consultants	734	551
Contractors	181	12
Other supplies and services	75	36
<b>Total Supplies and services</b>	<b>2 204</b>	<b>1 605</b>
	<b>2013 \$'000</b>	<b>2012 \$'000</b>
<b>Supplies and services provided by entities within the SA Government</b>		
Accommodation	467	248
General administration	219	146
Information technology charges	29	53
<b>Total Supplies and services by entities within the SA Government</b>	<b>715</b>	<b>447</b>

Total Supplies and Services includes GST where the amount of GST incurred by the Commission as a purchaser is not recoverable from the Australian Taxation Office.

**Consultants**

The number of, and dollar amount paid or payable to consultants for projects undertaken are within the following bands:

	2013 Number	2012 Number	2013 \$'000	2012 \$'000
Below \$10 000	4	3	23	18
Between \$10 000 and \$50 000	4	7	105	175
Above \$50 000	5	5	606	358
<b>Total Paid or payable to consultants</b>	<b>13</b>	<b>15</b>	<b>734</b>	<b>551</b>

**Note 11 Refunds**

	2013 \$'000	2012 \$'000
Refunds of licence fees	551	—
<b>Total Refunds</b>	<b>551</b>	<b>—</b>

The Commission has provided for refunds of unused retail energy licence fee payments which ceased on 31 January 2013 as required under the new legislation for retail energy administration fees.

**Note 12 Payments to SA Government**

	2013 \$'000	2012 \$'000
Return of funds from Barley Industry	130	—
Return of contributions for Interstate Rail Regulation	350	—
Return of contributions for Intrastate Rail Regulation	290	—
Return of contributions for Ports Industry Regulation	675	—
Transfer of funds to Department for Manufacturing, Innovation, Trade, Resources and Energy (SACOSS)	100	—
<b>Total Payments to SA Government</b>	<b>1 545</b>	<b>—</b>

**Note 13 Depreciation and amortisation expense**

	2013 \$'000	2012 \$'000
<b>Depreciation</b>		
Furniture & fittings	7	26
Office equipment	7	7
<b>Total Depreciation expense</b>	<b>14</b>	<b>33</b>
<b>Amortisation expense</b>		
Intangible assets	45	52
<b>Total Amortisation expense</b>	<b>45</b>	<b>52</b>
<b>Total Depreciation and amortisation expense</b>	<b>59</b>	<b>85</b>

**Note 14 Auditor's remuneration**

	2013	2012
	\$'000	\$'000
Audit fees paid or payable to the Auditor-General's Department	14	12
<b>Total Audit fees</b>	<b>14</b>	<b>12</b>

**Other services**

No other services were provided by the Auditor-General's Department.

**Note 15 Receivables**

	2013	2012
	\$'000	\$'000
<b>Current</b>		
Receivables	1 239	1 978
Accrued revenue	109	123
Prepayments	43	19
<b>Total Current Receivables</b>	<b>1 391</b>	<b>2 120</b>
<b>Total Receivables</b>	<b>1 391</b>	<b>2 120</b>
<b>Receivables from SA Government entities</b>		
Receivables	2	657
<b>Total Receivables from SA Government entities</b>	<b>2</b>	<b>657</b>
<b>Receivables from Non SA Government entities</b>		
Receivables	1 237	1,321
Accrued receivables	109	123
Prepayments	43	19
<b>Total Receivables from Non SA Government entities</b>	<b>1 389</b>	<b>1 463</b>
<b>Total Receivables</b>	<b>1 391</b>	<b>2 120</b>

**Interest rate and credit risk**

Receivables are raised for all goods and services provided for which payment has not been received. Receivables are normally settled within 30 days. Receivables, prepayments and accrued revenues are non-interest bearing. It is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value as they are receivable on demand. There is no concentration of credit risk.

**Note 16 Property, plant and equipment**

	2013	2012
	\$'000	\$'000
<b>Furniture and fittings</b>		
Furniture and fittings at cost (deemed fair value)	—	327
Accumulated depreciation	—	( 320)
<b>Total Furniture and fittings</b>	<b>—</b>	<b>7</b>
<b>Office equipment</b>		
Office equipment at cost (deemed fair value)	34	52
Accumulated depreciation	( 25)	( 36)
<b>Total Office equipment</b>	<b>9</b>	<b>16</b>
<b>Building fitouts</b>		
Building fitouts at cost (deemed fair value)	554	—
<b>Total Building Fitouts</b>	<b>554</b>	<b>—</b>
<b>Total Property and plant and equipment</b>	<b>563</b>	<b>23</b>

**Reconciliation of property, plant and equipment**

The following table shows the movement of Property, plant and equipment during 2012-13.

	Furniture and fittings	Building fitouts	Office equipment	TOTAL
	\$'000		\$'000	\$'000
Carrying amount at the beginning of the period	7	—	16	23
Additions	—	554	—	554
Depreciation expense	( 7)	—	( 7)	( 14)
<b>Carrying amount at the end of the period</b>	<b>—</b>	<b>554</b>	<b>9</b>	<b>563</b>

**Note 17 Intangible assets**

	2013 \$'000	2012 \$'000
<b>Internally developed software</b>		
Internally developed computer software	212	212
Accumulated amortisation	( 144)	( 99)
<b>Total Internally developed software</b>	<b>68</b>	<b>113</b>
<b>Externally acquired software</b>		
Externally acquired software at cost (fair value)	—	22
Accumulated amortisation	—	( 22)
<b>Total Externally acquired software</b>	<b>—</b>	<b>—</b>
<b>Total Intangible assets</b>	<b>68</b>	<b>113</b>

**Reconciliation of Intangible assets**

The following table shows the movement of intangible assets during the reporting period:

	2013 \$'000	2012 \$'000
Carrying amount at the beginning of the period	113	165
Amortisation expense	( 45)	( 52)
<b>Carrying amount at the end of the period</b>	<b>68</b>	<b>113</b>

**Note 18 Payables**

	2013 \$'000	2012 \$'000
<b>Current</b>		
Accrued expenses	1 120	179
Employment on-costs	46	34
Workers compensation	1	—
<b>Total Current Payables</b>	<b>1 167</b>	<b>213</b>
<b>Non-Current</b>		
Employment on-costs	45	34
<b>Total Non-Current Payables</b>	<b>45</b>	<b>34</b>
<b>Total Payables</b>	<b>1 212</b>	<b>247</b>
<b>Payables to SA Government entities</b>		
Accrued expenses	493	60
Employment on-costs	41	34
<b>Total Payables to SA Government entities</b>	<b>534</b>	<b>94</b>

As a result of an actuarial assessment performed by the Department of Treasury and Finance, the percentage of long service leave taken as leave has remained at the 2012 rate of 40% and the average factor for the calculation of the employer superannuation on-costs has changed from 10.3% in 2012 to 10.2% in 2013. This rate is used in the employment on-cost calculation.

Under the *Payroll Tax Act 2010*, the payroll tax rate remained at 4.95% in 2013. The rate is used in the payroll tax calculation for long service leave and annual leave.

**Interest rate and credit risk**

Creditors are raised for all material amounts billed but unpaid. Trade creditors are normally settled within 30 days of the invoice date provided the goods and services have been received. Employment on-costs are settled when the respective employee benefit that they relate to is discharged. All payables are non-interest bearing. The carrying amount of payables approximates net fair value as they are payable on demand.

**Financial instruments/financial risk management**

\* Refer Note 25.

**Note 19 Employee benefits**

	2013 \$'000	2012 \$'000
<b>Current</b>		
Annual leave	164	137
Long service leave	134	135
Skills and experience retention leave	2	—
<b>Total Current Employee benefits</b>	<b>300</b>	<b>272</b>
<b>Non-Current</b>		
Long service leave	482	389
<b>Total Non-Current Employee benefits</b>	<b>482</b>	<b>389</b>
<b>Total Employee benefits</b>	<b>782</b>	<b>661</b>

**Note 19 Employee benefits (continued)**

The total current and non-current employee benefit and related on-costs as at 30 June 2013 are \$346 000 (\$306 000) and \$527 000 (\$423 000) respectively.

The annual leave liability is calculated at the salary rates the Department expects to pay. For 2012-13 a salary inflation rate of 4 per cent was used for this estimate. This salary inflation rate remained unchanged from the prior year.

AASB119 contains the calculation methodology for long service leave liability. This year, the actuarial assessment performed by the Department of Treasury and Finance has provided a set level of liability rather than a benchmark for the measurement of long service leave. The effect of the change relating to the current period is immaterial.

AASB 119 requires the use of the yield on long term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long term Commonwealth Government bonds has increased from 2012 (3.0%) to 2013 (3.75%).

The increase in the bond yield, which is used as the rate to discount future long service leave cash flows, results in a decrease in the reported long service leave liability.

**Note 20 Other liabilities**

	2013 \$'000	2012 \$'000
<b>Current</b>		
Unearned revenue	123	3
<b>Total Current Other liabilities</b>	<b>123</b>	<b>3</b>
<b>Non-Current</b>		
Other	3	—
<b>Total Non-Current Other liabilities</b>	<b>3</b>	<b>—</b>
<b>Total Other Liabilities</b>	<b>126</b>	<b>3</b>

**Note 21 Unrecognised contractual commitments****(a) Remuneration commitments**

Commitments for the payment of salaries and other remuneration under employment contracts in existence at the reporting date but not recognised as liabilities are payable as follows:

	2013 \$'000	2012 \$'000
Within one year	748	997
Later than one year but not later than five years	883	1 722
<b>Total Remuneration commitments</b>	<b>1 631</b>	<b>2 719</b>

**(b) Operating lease commitments**

The Commission's operating leases are for office accommodation and motor vehicles. The leases are non-cancellable, and have the option to renew.

Commitments under the Commission's operating leases at the reporting date are not recognised as liabilities in the financial statements. They are payable as follows:

	2013 \$'000	2012 \$'000
Within one year*	387	91
Later than one year but not later than five years	1 431	29
<b>Total Operating lease commitments</b>	<b>1 818</b>	<b>120</b>

\* Office accommodation

**(c) Other commitments**

Commitments for the payment of consultant contracts in existence at the reporting date but not recognised as liabilities are payable as follows:

	2013 \$'000	2012 \$'000
No later than one year	—	382
<b>Total Other commitments</b>	<b>—</b>	<b>382</b>



## Note 22 Contingent assets and contingent liabilities

### Contingent assets

The Commission is not aware of any material contingent assets in existence as at 30 June 2013.

### Contingent liabilities

The Commission is not aware of any material contingent liabilities in existence as at 30 June 2013.

## Note 23 Remuneration of commission and committee members

Members that were entitled to receive remuneration (directly and indirectly) for membership during 2012-13 financial year were:

### Essential Services Commission

Dr Patrick Walsh (Chairperson)  
Emeritus Professor Richard Blandy  
Mr John Hill  
Ms Barbara Rajkowska

### Consumer Advisory Committee

Dr Patrick Walsh (Chairperson) \*\*  
Mr Sandy Canale  
Mr Antony Clarke (Resigned 20 May 2013)  
Mr Mark Henley  
Mr David Hossen  
Ms Heather l'Anson  
Mr Peter Jamieson (Resigned 22 July 2012)  
Mr Timothy Kelly  
Ms Jillian Whittaker (Appointed 1 August 2012)  
Mr Ian Yates AM

### Power Line Environment Committee

Hon Rosemary Crowley (Chairperson)  
Mr Ivan Brooks  
Mr Kevin Hamilton  
Ms Diana Harvey  
Ms Margaret Lee  
Dr Andrew Lothian (Resigned 19 June 2013)  
Mr Mike Magin  
Ms Madeline Bekavac\* (Appointed 6 September 2012,  
Resigned 20 May 2013)

The number of members whose remuneration received or receivable falls within the following bands:

	2013 Number of Members	2012 Number of Members
\$0 - \$9 999	16	15
\$50 000 - \$59 999	3	2
\$60 000 - \$69 999	—	1
\$70 000 - \$79 999	1	1
<b>Total number of Commission and committee members</b>	<b>20</b>	<b>19</b>

Remuneration of Commission members reflects all costs of performing duties including fees, superannuation contributions and salary sacrifice arrangements. The total remuneration received or receivable by members was \$259 000 (\$264 000).

Unless otherwise disclosed, transactions between members are on conditions no more favourable than those which it is reasonable to expect the entity would have adopted if dealing with the related party at arm's length in the same circumstances.

\*In accordance with the Department of the Premier and Cabinet Circular No. 016, government employees did not receive any remuneration for board/committee duties during the financial year.

\*\* No remuneration was received by Dr Pat Walsh in the role of Chairperson of the Consumer Advisory Committee.

**Note 24 Reconciliation of net cash provided by operating activities to net result**

	2013 \$'000	2012 \$'000
Statement of Financial Position	9,852	10 127
<b>Reconciliation of net result to net cash provided by (used in) operating activities:</b>		
Net result for the year	(1 718)	1 197
<b>Add/less non cash items</b>		
Depreciation expense	59	85
<b>Movements in assets and liabilities</b>		
Increase/(decrease) in receivables	729	( 667)
(Increase)/decrease in payables	498	32
(Increase)/decrease in employee benefits	121	101
(Increase)/decrease in other liabilities	125	( 37)
<b>Net cash provided by (used in) operating activities</b>	<b>( 186)</b>	<b>711</b>

**Note 25 Financial instruments/financial risk management****25.1 Categorisation of financial instruments**

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised with respect to each class of financial asset, financial liability and equity instrument are disclosed in Note 2 *Summary of Significant Accounting Policies*.

Category of Financial Asset and Financial Liability	Statement of Financial Position line item	Note	Carrying amount 2013 \$'000	Fair value 2013 \$'000	Carrying amount 2012 \$'000	Fair value 2012 \$'000
<b>Financial assets</b>						
Cash and cash equivalents	Cash and cash equivalents	24	9 852	9 852	10 127	10 127
Loans and receivables	Receivables <sup>(1)</sup>	15	1 318	1 318	2 101	2 101
Total Financial Assets			11 170	11 170	12 228	12 228
<b>Financial liabilities</b>						
Financial liabilities at cost	Payables <sup>(1)</sup>	18	1 057	1 057	167	167
	Other financial liabilities	20	126	126	3	3
Total Financial Liabilities			1 183	1 183	170	170

(1) Amount of receivables and payables disclosed here excludes statutory receivables and payables (amounts owing from/to SA Government and GST input tax credit payable and recoverable). They are carried at cost.

**Credit risk**

Credit risk arises when there is the possibility of the Commission's debtors defaulting on their contractual obligations resulting in financial loss to the Commission. The Commission measures credit risk on a fair value basis and monitors risk on a regular basis.

**25.2 Ageing and impairment analysis of financial assets**

	Past due by			
	Overdue for < 30 days	Overdue for 30 – 60 days	Overdue for > 60 days	Total
	\$'000	\$'000	\$'000	\$'000
<b>2013</b>				
<b>Not impaired</b>				
Receivables <sup>(1)</sup>	1 348	—	—	1 348
<b>Impaired</b>				
Receivables <sup>(1)</sup>	—	—	—	—
<b>2012</b>				
<b>Not impaired</b>				
Receivables <sup>(1)</sup>	2 101	—	—	2 101
<b>Impaired</b>				
Receivables <sup>(1)</sup>	—	—	—	—

(1) Amount of receivables disclosed here excludes statutory receivables (amounts owing from SA Government and GST input tax credit payable and recoverable). They are carried at cost.

**Note 25 Financial instruments/financial risk management (continued)**

**25.3 Maturity analysis of financial assets and liabilities**

All financial assets and liabilities are carried at cost and will mature within one year.

**Note 26 Events after the reporting period**

There were no events occurring after the end of the reporting period that had a material financial implication on these financial statements.

**Note 27 Retained earnings**

The retained earnings are held in the Commission's SDA. The Commission has no authority to utilise the retained earnings unless approved in its Budget or with the prior approval of the Treasurer.

**Note 28 Administered items**

Australian Energy Market Commission (AEMC)

From the energy licence fees received by the Commission, an amount approved by the Treasurer is transferred to the consolidated account for the AEMC with \$1 670 000 (\$1 614 000) transferred in 2012-13.

Consumer Advocacy and Research Fund for Water

From the water licence fees received by the Commission, an amount approved by the Treasurer is transferred to the consolidated account for the Consumer Advocacy and Research Fund for Water with \$250 000 (\$0) transferred in 2012-13.

Office of the Technical Regulator funding

From the energy licence fees received by the Commission, an amount approved by the Treasurer is transferred to the consolidated account for the Office of the Technical Regulator with \$4 654 000 (\$4 605 000) transferred in 2012-13.

Department of Environment, Water and Natural Resources

From the water licence fees received by the Commission, an amount approved by the Treasurer is transferred to the consolidated account for the Department of Environment, Water and Natural Resources with \$151 000 (\$0) transferred in 2012-13.

Department of Treasury and Finance (DTF)

From the water licence fees received by the Commission, an amount approved by the Treasurer is transferred to the consolidated account for DTF with \$449 000 (\$0) transferred in 2012-13.

The Commission received \$760,000 from the SA Government in 2010-11 to fund its preparatory work for water regulation. The Commission is recouping these funds from SA Water over 4 years commencing 2011-12 and are included in the transfer amount.



9th Floor  
State Administration Centre  
200 Victoria Square  
Adelaide SA 5000  
DX 56208  
Victoria Square  
Tel +618 8226 9640  
Fax +618 8226 9688  
ABN 53 327 061 410  
audgensa@audit.sa.gov.au  
www.audit.sa.gov.au

## **To the Chairperson Essential Services Commission of South Australia**

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 24 of the *Essential Services Commission Act 2002*, I have audited the accompanying financial report of the Essential Services Commission for the financial year ended 30 June 2013. The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2013
- a Statement of Financial Position as at 30 June 2013
- a Statement of Changes in Equity for the year ended 30 June 2013
- a Statement of Cash Flows for the year ended 30 June 2013
- notes, comprising a summary of significant accounting policies and other explanatory information
- a Certificate from the Acting Chairperson, Chief Executive Officer and the Manager, Finance and Information Technology.

## **The Essential Services Commission of South Australia Responsibility for the Financial Report**

The Members of the Essential Services Commission of South Australia are responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards, and for such internal control as the Members of the Essential Services Commission of South Australia determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

## **Auditor's Responsibility**

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the requirements of the *Public Finance and Audit Act 1987* and Australian Auditing Standards. The auditing standards require that the auditor comply with relevant ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Members of the Essential Services Commission of South Australia, as well as the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial report gives a true and fair view of the financial position of the Essential Services Commission of South Australia as at 30 June 2013, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.



**S O'Neill**  
**AUDITOR-GENERAL**  
30 September 2013





The Essential Services Commission of South Australia

Level 1, 151 Pirie Street Adelaide SA 5000

GPO Box 2605 Adelaide SA 5001

T 08 8463 4444 | E [escosa@escosa.sa.gov.au](mailto:escosa@escosa.sa.gov.au) | W [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au)

