



**ESCOSA - Inquiry into regulatory arrangements for small-scale and off-grid water, gas and electricity services**

*City of Onkaparinga - Submission 7 October 2016 (Minor and Intermediate Water Retail Licences)*



**Question 1:**

1(a) What issues are current customers of small-scale utility services concerned about? How do you know customers are concerned about these issues?

*We believe the main issues of concern to our customers are:*

- *System reliability and affordability (Water Supply and Community Wastewater Management Systems (CWMS))*
- *Response to breakdowns (CWMS)*
- *Septic tank cleaning (CWMS)*
- *System Connections (Water Supply and CWMS)*
- *Response to enquiries (Water Supply and CWMS)*
- *Water quality, flow and pressure (Water Supply)*

*We are aware of these issues as they are typically the areas around which we have direct relationships with our customers.*

1(b) Does our current regulatory framework allow suppliers the flexibility to respond to the issues raised by customers? What improvements to our framework are required?

*The regulatory framework has not impacted on our customer relationships to date.*

1(c) Where customers are not provided with a choice of supply arrangements, what information do they need to understand the service they receive?

- *That an alternative supply arrangement is not available and why this is the case*
- *The constraints, challenges and costs of operating a decentralised system*
- *Any obligations the customer may have that contributes to the operation of the system they are part of.*

1(d) What are the appropriate indicators to allow us to monitor customer confidence, engagement and satisfaction in these markets?

- *Reliability of the service benchmarked against customer requirements/expectations of that system*
- *Response to breakdowns and issues*
- *Customer communications – timely, complete and effective*
- *Complaints received*

**Question 2:**

2(a) Are there any difficulties for small scale utility suppliers in setting prices to recover the long-term efficient costs of running their businesses? If so, how could our regulatory framework assist to address this issue?

***Difficulties***

*The pending implementation of a full cost recovery pricing requirement is of concern across our two water retail entities - particularly as the introduction of "Return Of and On Capital" (Depreciation and Return on Asset) elements have the potential to lead to unsustainable price spikes/step shifts. This concern is based on ESCOSA's earlier feedback on our annual reporting*

*that "The commission expects that retailers will achieve full cost recovery by the end of the current price control period (30 June 2017)."*

- *This is particularly an issue for our alternative water supply entity (primarily based around stormwater harvesting) which was developed around an environmental (ie Water Security and reduced reliance on the River Murray) rather than a commercial strategy.*
- *Entities like this will require additional time (ie beyond 30 June 2017) to transition to such full cost recovery arrangements. It should also be recognised that due to their small size they may never achieve the economy of scale required to be considered competitive. Under an enforced full cost recovery regime such entities may be forced into closure.*
- *We would encourage ESCOSA to consider the proposition that the original environmental investment principles remain of value to the consumer over the long term and until adequate levels of supply, demand and/or an increase in the price of substitutes are reached – full cost recovery as detailed in the National Water Initiative Pricing Principles (NWI) will not be achievable. (Noting that such entities are also exposed to climatic variability in their ability to supply).*

### **Proposed Assistance**

- *We consider that ESCOSA's light handed price monitoring regime and transparency goal have merit and propose that these are continued for ESCOSA's second regulatory period for Minor and Intermediate (M&I) Retailers.*
- *We suggest that there would be value in further investigation by ESCOSA into the transitional arrangement realistically required by M&I water retailers to adopt full cost recovery pricing.*
- *We suggest that a focus on long term asset management (based around operational and reliability drivers and underpinned by corresponding treasury management practices) are the key to sustainable and affordable services.*

*Further that:*

- *A Return on Asset charge should be discretionary to the entity and applied at a time when the market can bear (and accepts) the increase.*
- *Consideration should be given to allowing small entities (of a size to be defined) to receive income subsidy to allow the business to operate sustainably but not price itself out of the market.*
- *We would also suggest that the commission consider the proposition that the local government price setting and capital recovery decision making context is unique and its customers/communities are engaged in this process by way of their elected representatives – (ie decision making is transparent and customers have an effective conduit for enquiry into the price setting process).*

2(b) Are there any concerns that suppliers are over-recovering their long term efficient costs? If so, how could our regulatory framework assist to address this issue?

*We don't believe we are over-recovering long term efficient costs in either water retail entity. However, under the NWI there is a risk of inaccurate asset valuations (ie assets beyond the needs of current customers are held) leading to subsequent over recovery of costs.*

*ESCOSA's regulatory framework could be used to further define the valuation methodologies to be used (such as useful life of particular assets and reference to accounting standards etc.) as well as their application to different sized entities.*

**Question 3:**

3(a) Does our current regulatory framework present any issues or challenges for new entrants offering new small-scale utility services? If so, how?

*We agree that the interests of consumers are well served by functional markets and competition. To that end we encourage ESCOSA to consider its role as an enabler of market entry rather than a barrier through the revision of its regulatory framework. As we have stated above – ESCOSA’s potential pricing framework is considered a barrier to market entry and function.*

*To a lesser extent, the application of ESCOSA’s consumer protection and reporting/compliance frameworks could also be considered as barriers to entry for smaller entities. The same consideration could be applied to the emerging technical regulation framework from the Office of the Technical Regulator. The start-up resource intensity for compliance has been considerable for our operations. Whether the on-going reporting/auditing requirements will be resource intensive is not yet known.*

*To improve the regulatory framework we suggest that ESCOSA (and the OTR if possible) consider applying the current breakdown of the water retail market (ie Large, Intermediate and Small retailers) to greater effect by limiting the regulatory impact on the smaller market participants. We feel that ESCOSA could do more to encourage market entry/sustainability by staging the requirements for the regulatory obligations or by applying them in an even more proportional manner to entities based on size.*

*Within this recommendation, we acknowledge that there should remain mandatory requirements for all entities around key risk areas – we would welcome further discussion around this point.*

3(b) Are there any new or emerging business models that will create a different relationship between suppliers and customers? If so, will this relationship create new financial, service reliability or other risks that customers need to be aware of when making their decisions?

*We have not experienced any such models in our businesses.*

3(c) Where customers are provided with a choice of supply arrangements, what information will they need to make informed decisions about new supply options? Who should provide this information?

*For water supply, we consider the customer should seek to understand a number of variables on a daily, seasonal and annual basis*

- available volumes, supply risk/constraint, flow and pressure*
- price and billing arrangements.*

*As far as possible, the customer should understand their own requirements and the entity should be able to provide corresponding information about the supply scenario*

**Question 4:**

4(a) How much does it cost for suppliers to comply with their obligations under our current regulatory framework?

*While we haven’t quantified it, the initial effort to reach compliance with ESCOSA’s framework has been significant and has required resource input from across the organisation.*

*This is expected to reduce as we reach full compliance with the additional procedures, policies, reporting and management systems that ESCOSA (and other regulators) require. As mentioned before the resource requirement to respond to the ongoing auditing and reporting obligations of a M&I water retail entity is still emerging.*

4(b) Are you aware of any areas where more than one regulator is seeking to deal with the same matter (regulatory overlap)?

*We consider that regulatory overlap does occur periodically across our operations.*

4(c) Are there any areas where you believe that no regulator is dealing with a matter but should be (regulatory gap)?

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4(d) Are you aware of any emerging risks that we need to take into account?

*As mentioned previously, the requirement for smaller water entities to apply a full cost recovery framework has the potential to be unachievable if these businesses are to remain competitive. The application of a Return on Asset requirement is a key pressure.*

*The water industry as captured by the Water Industry Act 2012 is also subject to extensive regulation, while we acknowledge much of this is necessary and important for the protection of consumers, public safety and the environment it comes at a cost which needs to be priced into production.*

*For smaller operators water retail is a challenging environment. Wherever possible we encourage a practical regulatory approach, recognition that this is a new and emerging area of the economy and on-going discussion regarding the best way to encourage market participation.*