



# Inquiry into regulatory arrangements for small-scale water, sewerage and energy services

Response to Framework and Approach Submissions

August 2020

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## Glossary of terms

AEMC	Australian Energy Market Commission
Commission	Essential Services Commission, established under the <i>Essential Services Commission Act 2002</i>
Competent operation	The demonstrated ongoing provision by a licensee of a competent service as defined in Box 1 (Chapter 3) of the Draft Inquiry Report
CWMS	Community wastewater management system
DEM	Department for Energy and Mining
Draft Inquiry Report	Inquiry into regulatory arrangements for small-scale water, sewerage and energy services , <i>Draft Inquiry Report</i> , July 2020, available at <a href="https://bit.ly/2JpPaU1">https://bit.ly/2JpPaU1</a>
EWOSA	Energy and Water Ombudsman SA
Framework and Approach paper	Inquiry into regulatory arrangements for small-scale water, sewerage and energy services , <i>Framework and Approach</i> , June 2019, available at <a href="https://bit.ly/2JpPaU1">https://bit.ly/2JpPaU1</a>
Inquiry	The inquiry into regulatory arrangements for small-scale water, sewerage and energy services
Licensees	Small-scale network service providers licensed by the Commission
LPG	Liquid petroleum gas
RAES	Remote Area Energy Supply scheme
Regulatory framework	Economic regulatory framework administered by the Commission
SACOSS	South Australian Council of Social Service
Small-scale networks	Comprising, South Australian: <ul style="list-style-type: none"> <li>▶ water and sewerage (water industry) networks with 50,000 connections or less</li> <li>▶ off-grid electricity networks, and</li> <li>▶ reticulated liquid petroleum gas (LPG) networks</li> </ul>
Technical Regulator	The position of the Technical Regulator is established under the <i>Electricity Act 1996</i> , the <i>Gas Act 1997</i> , the <i>Energy Products (Safety and Efficiency) Act 2000</i> , and the <i>Water Industry Act 2012</i> . Its primary objectives are ensuring the safety of workers, consumers and property as well as compliance with legislation and applicable technical standards in the electricity, gas and water industries
Trusted licensee	A licensee that demonstrates to the Commission's satisfaction that it is engaging in a competent operation as defined in Box 1 (Chapter 3) of the Draft Inquiry Report
VTA model	Verified trust and accountability model as defined in Box 1 (Chapter 3) of the Draft Inquiry Report

## Summary

The Commission requested submissions to the Framework and Approach paper released in June 2019, and received submissions from:<sup>1</sup>

- ▶ Licensees or industry representative bodies:
  - Adelaide Hills Council
  - Alexandrina Council
  - Berri Barmera Council
  - City of Marion
  - City of Tea Tree Gully
  - Clean Energy Council
  - Environmental Land Services
  - Origin, and
  - Wudinna District Council.
- ▶ Customers or customer representative bodies:
  - Private individual – S Kaye
  - Private individual – P and Y Tiss
  - South Australian Council of Social Service (**SACOSS**), and
  - Tea Tree Gully CWMS Residents' Action Group.
- ▶ Government Departments:
  - Department for Energy and Mining (**DEM**).

Table 1 lists the issues raised during consultation on the Framework and Approach paper and the Commission's responses. The Commission has considered the matters raised in submissions in preparing the Draft Inquiry Report.<sup>2</sup> This document should be considered in conjunction with that report.

The Commission has received comments in some submissions relating to the current operation of the City of Tea Tree Gully's community wastewater management system (**CWMS**). In light of the recent Government decision on the future of this service,<sup>3</sup> with respect to stakeholder comments on the Tea Tree Gully CWMS, the following table only deals with comments relating to the regulatory proposals presented in the Framework and Approach paper.

The contents of Table 1 are grouped according to:

- ▶ The Verified Trust and Accountability model (items 1-10)
- ▶ Energy and Water Ombudsman SA membership (items 11-12)
- ▶ Harmonisation (item 13), and
- ▶ Other matters (item 14).

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<sup>1</sup> See the Commission's Inquiry into regulatory arrangements for small-scale and off-grid network water, gas and electricity services, Framework and Approach paper, available at <https://bit.ly/2JpPaU1>

<sup>2</sup> The Draft Inquiry Report can be found at <https://bit.ly/2JpPaU1>

<sup>3</sup> See the State Government's media release of 10 June 2020, available at

<https://www.premier.sa.gov.au/news/media-releases/news/sewage-solution-for-north-east-suburbs>

Table 1: Issues raised in consultation on the Framework and Approach Paper and Commission response

No.	Topic	Issue	Response
<b>THE VERIFIED TRUST AND ACCOUNTABILITY MODEL</b>			
1.	Trust	<p>Not all stakeholders submitted a preference for a specific regulatory model.</p> <p>The City of Marion, the Berri Barmera Council, the Department for Energy and Mining (DEM) and Origin submitted support for the Verified Trust and Accountability model (VTA model) with harmonisation (which was Option 4 in the Framework and Approach paper).<sup>4</sup></p> <p>Alexandrina Council submitted support for the VTA model without harmonisation (which was Option 3 in the Framework and Approach paper), given the Council did not consider the current reporting obligations as 'particularly onerous'.</p> <p>The Adelaide Hills Council submitted support for a more light-handed approach and a reduction in annual reporting obligations for licensees providing a competent operation, as proposed in Option 3 and Option 4.</p> <p>SACOSS submitted that it supported Framework and Approach Option 2 (retain the present reporting-compliance approach but harmonise between and within industries), in part, because of the need to build trust with the small-scale networks industry (see item number 2). SACOSS urged the Commission to consider the risks of trusting newer entrants into the market within a changing energy landscape – in particular, in the absence of Commission guidance or regulations around pricing.</p>	<p><u>Commission understanding of issue:</u></p> <p>While most stakeholders who submitted a preference support the VTA Model, a consumer representative body (SACOSS) indicated that it was not convinced that licensees could be trusted, particularly newer entrants.</p> <p><u>Response:</u></p> <p>The Commission acknowledges that, as the Framework and Approach paper focused on strategic direction, it did not fully describe how the VTA model might operate in practice, as is described in the Draft Inquiry Report.</p> <p>Overall, the Commission considers the VTA model provides an appropriate basepoint from which selected licensees can initially be considered trusted. These licensees, classified as Category A licensees in the Draft Inquiry Report, would be subject to a reduced level of regulatory oversight/prescriptiveness, initially achieved through a reduced reporting regime.</p> <p>It is the behaviour of each licensee that is relevant to maintaining or obtaining a Category A classification. Losing Category A classification means being subjected to a tailored reporting requirement, which may resemble existing requirements or extend beyond this. This applies to both existing licensees and new entrants.</p> <p>The existing obligations and compliance requirements remain in this regulatory framework, but will be subject to the outcome of the harmonisation project discussed in Chapter 4 of the Draft Inquiry Report.</p>

<sup>4</sup> See Essential Services Commission, Framework and Approach paper, June 2019, p.20, for a summary of the options.

No.	Topic	Issue	Response
2.	Reducing prescriptiveness	<p>Origin submitted:</p> <ul style="list-style-type: none"> <li>▶ the associated costs of South Australian small-scale networks' regulation are disproportionate when compared to other jurisdictions (for example, Queensland)</li> <li>▶ strong support for safety-related regulation, and</li> <li>▶ that there is little justification for continuing to regulate reticulated LPG supply (other than for safety), given the availability of viable alternatives, such as bottled LPG.</li> </ul> <p>DEM, while submitting support for Framework and Approach Option 4 (see item number 1), also cautioned against reduced safety regulation for electricity. It was also concerned that the Technical Regulator may need to request certain information from water entities that it currently relies on the Commission to collect if reduced reporting requirements are implemented.</p> <p>The City of Tea Tree Gully submitted that the current regulatory framework is highly prescriptive, requires comprehensive monitoring and reporting requirements, and duplicates reporting requirements of other regulators. Likewise, Wudinna District Council submitted that Commission reporting requirements duplicate those already required under the Local Government Act. The City of Tea Tree Gully's preferred approach would be for the Commission to undertake random audits of licensees.</p> <p>Wudinna District Council also submitted that the need for a water retailer's licence may in itself act as a disincentive for smaller entities to use creativity to reduce water consumption (such as through distributing harvested stormwater).</p> <p>Alexandrina Council, however, submitted that reporting requirements are not onerous.</p> <p>SACOSS submitted support for Option 2 as an approach to retaining some form of reporting and compliance to ensure consumers are</p>	<p><u>Commission understanding of issue:</u></p> <p>Licensees and government agencies support reducing the prescriptiveness of small-scale network regulation, providing safety is not compromised.</p> <p>However, SACOSS was concerned that a consequence of reducing prescriptiveness would be a lessening of protections for consumers.</p> <p><u>Response:</u></p> <p>Stakeholder responses can be broadly split into the following themes:</p> <ul style="list-style-type: none"> <li>▶ prescriptiveness and reporting</li> <li>▶ the role of safety obligations, and</li> <li>▶ the need for and costs of regulation.</li> </ul> <p><b>Prescriptiveness and reporting</b></p> <p>Under the VTA model, regulatory prescriptiveness will be reduced through a reduction in reporting requirements for trusted licensees (see section 3.5 of the Draft Inquiry Report).</p> <p>The Commission acknowledges SACOSS's concerns and recognises the important role of customer protections in the provision of essential services. Other than for direct reporting obligations to the Commission, the VTA model does not reduce the fundamental obligations licensees have to their customers, many of which are provided by the relevant industry Acts.</p> <p>While individual licensee reporting requirements to the Commission may be reduced, this need not mean that there will be less information available to the Commission under the VTA model. The Commission will keep informed through collecting and analysing market intelligence, as well as undertaking audits (see section 3.5 of the Draft Inquiry Report).</p> <p>Further, under the VTA model, licensees will be required to notify the Commission of any material changes to operations. This should result in</p>

No.	Topic	Issue	Response
		<p>adequately protected (noting the concerns SACOSS raised in relation to trust in item number 1) and identified a number of areas where it considered reporting and compliance to be important, including reporting on the number of disconnections for non-payment. Further, it expressed the importance of prescribing certain information on customer bills, to ensure transparency and visibility of water and energy use.</p> <p>The Clean Energy Council asked if the Commission will propose service and installation rules for third-party stand-alone power systems, and if it will regulate the safety of microgrids over their operating life.</p>	<p>the Commission remaining up-to-date with the condition of assets and other areas of interest. If required, that information may be passed to other regulators, such as the Technical Regulator, as is currently the case.</p> <p>Notwithstanding, the Commission agrees with SACOSS regarding the provision of relevant information on customer bills. This is because it provides customers with information they may choose to act upon to manage their demand. If a Category A licensee chooses to reduce the information provided on customer bills to that less than required by its licence and Code obligations, this becomes a compliance matter. Also, the licensee risks losing trust and being subject to greater scrutiny and greater reporting requirements. This targeting also applies to price determinations, which the Commission may choose to implement in various forms depending upon licensee behaviour.</p> <p>The Commission remains open to mandating licensees reporting disconnections for non-payment. It would welcome further discussion and evidence-based submissions regarding why it would be necessary for a Category A licensee to have to provide this information, other than if and when there has been a material change in the level of disconnections, noting the Commission's expectation that the licensee will be able to provide this if required by the Commission.</p> <p><b>The role of safety obligations</b></p> <p>With respect to Origin's and DEM's comments on safety regulation, the Commission has no role in this area other than to seek that the safety obligations set by other agencies are achieved efficiently (that is, at lowest cost). As such, the Commission would not seek to amend safety obligations outside of its jurisdiction.</p> <p>As part of the Commission's licensing process, networks have to comply with the Technical Regulator's requirements to ensure safety and reliability. The Technical Regulator has an ongoing role in monitoring safety compliance of licensees.</p>

No.	Topic	Issue	Response
			<p><b>The need for, and costs of, regulation</b></p> <p>The Commission notes Origin’s comments regarding the need, or otherwise, to regulate the reticulated LPG supply. The Commission is obligated to meet the requirements of the legislation under which it operates. Under this, providers of reticulated LPG supply must be licensed. This position regarding the Commission’s obligations also applies to Wudinna’s observations.</p> <p>With respect to achieving a cost-effective approach to regulation, which was discussed by Origin and various local government licensees, the Commission considers that the VTA model seeks to provide a cost-effective approach to the regulation of licensees in the South Australian context. It seeks to balance the interest of licensees with those of their customers, while having due regard to the legislative and regulatory context. Notwithstanding, the Commission welcomes evidence-based suggestions that would materially improve the cost-effectiveness of the proposed approach.</p> <p>In relation to the Clean Energy Council’s comment, the Commission understands that service and installation rules are within the Office of the Technical Regulator’s remit. However, there is potential to consider harmonisation with national regulation via the harmonisation project (see Chapter 4 of the Draft Inquiry Report).</p> <p>In relation to the City of Tea Tree Gully’s preference for the Commission to rely on random audits of licensees, the Commission looks to cost-effectively employ a range of compliance testing measures, with ad hoc, or random, audits being one potential approach (see section 3.5.4 of the Draft Inquiry Report).</p>
3.	Points of clarification	Alexandrina Council submitted that the Framework and Approach paper’s support for customers’ willingness to pay sends the wrong message to the customer:	<p><u>Commission understanding of issue:</u></p> <p>There is concern that willingness to pay will be used as a short-term political driver, at the expense of longer-term, strategic drivers, resulting in future cost increases.</p> <p>The principles of competitive markets should not be used to measure essential services provided by local government, and may result in</p>



No.	Topic	Issue	Response
		<ul style="list-style-type: none"> <li>▶ rather, the price should be an output of the service based on meeting quality, risk mitigation, sustainability and reliability aspirations</li> <li>▶ that economic optimisation should be a strategic focus but should not displace other key aspects of managing a utility, and</li> <li>▶ concludes that this is generally a short-term political driver that ultimately ends in future cost increases for the service.</li> </ul> <p>Alexandrina Council also submitted that the VTA model's objective of seeking to achieve an outcome consistent with what would be expected in a competitive market is an assertion that the outcome will produce better pricing for customers. In support of this view the Council submitted:</p> <ul style="list-style-type: none"> <li>▶ these principles are sound when considering monopoly markets within the private sector, where price gouging is a realistic risk, but potentially increases the risk of increased privatisation of essential services</li> <li>▶ the initial lowest price is definitely not the most economical outcome across the lifecycle of the service and assets</li> <li>▶ the risk must be considered simply based on cultural shift towards 'service for profit', and</li> <li>▶ publically-owned services should be governed based on different risks.</li> </ul>	<p>privatisation of essential services for profit making, because local government faces different risks than private sector licensees.</p> <p><u>Response:</u></p> <p>The stakeholder's responses can be broadly split into the following themes:</p> <ul style="list-style-type: none"> <li>▶ customers' willingness to pay, and</li> <li>▶ is mirroring a competitive outcome an appropriate objective?</li> </ul> <p><b>Customers' willingness to pay</b></p> <p>The Commission supports Alexandrina Council's view that price should reflect factors such as quality, sustainability, reliability, and should account for risk. Regarding political environment, the Commission considers it is for the licensee to manage its own circumstances in this regard, because the regulatory regime is ownership neutral.</p> <p>The Commission is also of the view that any aspirations associated with service provision should ideally involve understanding what level of service provision customers are willing to pay for. It is unclear why those who pay for the service should not be appropriately consulted about the service-quality level to be provided and why.</p> <p>Consequently, the Commission does not consider that articulating a role for willingness to pay within the VTA model sends the wrong message. Nor does it consider that a role for willingness to pay results in economic optimisation displacing other aspects of managing a utility. Rather, it provides a customer-focused context for both.</p> <p>Willingness to pay is important precisely because it relates to the need for a licensee to genuinely consult with customers, in order to understand the price-service-quality trade-off from the customer perspective. It can also provide an opportunity to develop options not previously considered by the licensee. These exchanges can identify the customers' preferred price-service-quality mix, and customers should</p>

No.	Topic	Issue	Response
			<p>pay a price that enables this service-quality mix to be provided on a lowest sustainable cost basis.</p> <p>The Commission acknowledges this requires customers to appreciate that differing levels of price-service-quality mix come with differing cost profiles. Customers are well-placed in this respect, provided they have an informed understanding of the situation. This is because they make such trade-offs every day across various transactions.</p> <p><b>Is mirroring a competitive market an appropriate objective?</b></p> <p>Generally, the outcome of the competitive process is considered, from a solely economic perspective, to be social welfare maximising, providing a choice of price-service-quality mixes wanted by customers at efficient cost. Given this, it represents an appropriate baseline to start from in economic regulation terms, but not necessarily to follow in all circumstances.</p> <p>With regard to the specific points made by Alexandrian Council. In turn:</p> <ul style="list-style-type: none"> <li>▶ Essential service regulation mitigates the risk of excessive pricing, regardless of ownership structure. So, it is unclear why excessive pricing would arise under either ownership structure in a regulatory context, or why privatisation is relevant given this.</li> <li>▶ Over the life of the assets involved in providing the service, prices within a competitive market cover efficient operational, infrastructure and financing costs, as well as providing a return commensurate with the risk associated with the service's provision. Pricing that does not account for these is not sustainable. The pricing principles in the current regulatory framework reflect this.</li> <li>▶ The regulatory environment seeks to ensure the essential service is provided in a manner wanted by customers and is sustainable. The fact this this means pricing can include a return is not, in itself, a cultural shift to 'service for profit'. This is because the regulatory framework does not suggest pricing beyond efficient cost is acceptable.</li> </ul>

No.	Topic	Issue	Response
			<ul style="list-style-type: none"> <li>▶ The Commission does not agree that it should adopt a differing regulatory approach for public and private sector organisations because of differing risk profiles. The regulatory framework is and should be ownership neutral, given assets can be transferred across organisations. Also, each organisation is best placed to ensure that if it provides regulated services, it does so in a manner that meets its regulatory obligations, while managing the risks associated with its organisational structure.</li> </ul>
4.	Sustainability of services	<p>The City of Tea Tree Gully CWMS Residents' Action Group submitted that CWMS networks are being installed in areas across South Australia, and stated that those areas need to have plans to transition to SA Water or infrastructure renewal.</p> <p>Alexandrina Council submitted that methodologies for ensuring the sustainability of the service and protecting against step-change price increases could ensure rigour around long-term infrastructure planning. Further, that growth drivers should be considered to meet 10+ year projections, and that the planning and integration of renewal, upgrade and expansion is key to ensuring that the cost of future infrastructure is optimised.</p>	<p><u>Commission understanding of issue:</u></p> <p>There may be benefit from developing methodologies for supporting asset sustainability.</p> <p><u>Response:</u></p> <p>The Commission agrees with stakeholders regarding the importance of having well-developed long-term asset management plans to underpin service sustainability – on the basis that the plans are practically implemented. However, the Commission is of the view that this is the responsibility of the licensee.</p> <p>In terms of the VTA model proposed, the expectation is that a licensee of a competent operation has developed and can provide evidence of implementation, or will develop and implement, its asset management strategy to ensure long-term service sustainability. This is because the licensee is best placed to manage the risk associated with this, given its detailed knowledge of the specific asset stock. In this sense, the Commission considers it a licensee's responsibility to apply a regional and long-term sustainability framework as befits the circumstances.</p>
5.	Pricing outcomes	SACOSS submitted that:	<p><u>Commission understanding of issue:</u></p> <p>A range of concerns have been submitted covering the practical outcome from applying pricing principles:</p>

No.	Topic	Issue	Response
		<ul style="list-style-type: none"> <li>▶ it had concerns regarding the lack of a price determination for electricity, particularly given changes in service models that are likely to occur in this area – as an example, potential changes to the Remote Area Energy Supply (RAES) scheme</li> <li>▶ increasing electricity prices over time to current on-grid market prices in South Australia would be too high for remote communities, and there is minimal reason for Aboriginal communities in South Australia to be subjected over the longer-term to such prices, given they are not connected to the National Electricity Market, and</li> <li>▶ the Commission should consider the risks that could occur with newer entrants into the market with a changing energy landscape – in particular, the risks of higher tariffs (prices) for customers if the Commission does not use its authority to provide some regulations or guidance around pricing.</li> </ul> <p>Meanwhile, the Clean Energy Council asked if the Commission will require price transparency and price monitoring for retail and connection charges.</p>	<ul style="list-style-type: none"> <li>▶ SACOSS is concerned with the impact of any increased prices on vulnerable customers and the lack of a more prescribed form of price determination in the context of electricity provision, and</li> <li>▶ Clean Energy Council is also interested in the extent to which the Commission will require price transparency and engage in price monitoring.</li> </ul> <p><u>Response:</u></p> <p>The Commission notes the comments of SACOSS and the Clean Energy Council regarding the role of price determinations, price monitoring and price transparency. However, the Commission only seeks to apply its powers in this area if the evidence suggests there is a need.</p> <p>This requires the Commission to regularly critically assess the extent to which these powers should be implemented and, if so, how. To date, given the evidence available to it, the Commission is not aware of any need to amend its existing approach for small-scale electricity networks (see section 2.4.1.2 of the Draft Inquiry Report). Notwithstanding, the Commission would always welcome evidence-based submissions on this issue.</p>
6.	Customer protections	<p>SACOSS submitted that customers who are experiencing payment difficulties and hardship should, at a minimum, have access to support to avoid disconnection, such as payment plans, Centrepay, concessions applied to their bill and energy efficiency advice to reduce demand if viable. SACOSS also requested that disconnection be considered as a measure of last resort and be prohibited for hardship customers and customers adhering to a payment plan. SACOSS sought consistency in the application of consumer protections for all South Australian customers.</p>	<p><u>Commission understanding of issue:</u></p> <p>SACOSS stressed the importance of customer information and protections, including:</p> <ul style="list-style-type: none"> <li>▶ regulation governing disconnections and maintenance timeframes, and</li> <li>▶ timeframes of repairs and maintenance.</li> </ul> <p>The Clean Energy Council asks if protections will be extended to third-party standalone power systems customers.</p>

No.	Topic	Issue	Response
		<p>SACOSS recommended that the Commission ensure that timeframes for repair and maintenance of essential services are kept to a minimum and that licensees are reviewed regularly on this basis.</p> <p>The Clean Energy Council asked if the Commission will consider extending consumer protections to third-party standalone power systems customers, noting that consumers who move off-grid would currently lose their energy specific consumer protections operating under the National Energy Retail Law administered by the AER.</p>	<p><u>Response:</u></p> <p>Regarding SACOSS's comments, the Commission refers to item number 2. This notes the initial application of the VTA model does not change a licensee's consumer protection obligations. The harmonisation project (see Chapter 4 of the Draft Inquiry Report) will seek to consider the advantages and disadvantages regarding potential changes to a licensee's obligations, within the confines of the legislative framework the Commission works within.</p> <p>Regarding the Clean Energy Council's comments, consumer protections are defined in industry codes (water, sewerage and reticulated LPG) or in licence conditions (off-grid electricity). They apply to all licensees as relevant, including any third-party standalone power systems licensees that become captured under the regulatory framework administered by the Commission.</p>
7.	Licensing framework	<p>The Clean Energy Council asked several questions relating to the licensing framework:</p> <ul style="list-style-type: none"> <li>▶ Will the National Energy Customer Framework be applied to the regulation of stand-alone power systems in South Australia?</li> <li>▶ Will the Commission adopt the 'tiered framework' to the regulation of stand-alone power systems in South Australia?</li> <li>▶ What threshold will be used to delineate Category 2 and Category 3 microgrids?</li> <li>▶ Will the Commission apply a licensing framework or a registered licensing exemptions framework to Category 3 microgrids?</li> <li>▶ Will the Commission adopt elements of the Clean Energy Council's accreditation schemes in its licensing framework?</li> </ul> <p>Origin submitted a specific example of its Distribution and Retail licence containing a number of licence conditions requiring sharing of</p>	<p><u>Commission understanding of issue:</u></p> <p>Submissions raise several issues regarding aligning the licensing process with the Australian Energy Market Commission's (AEMC) Review of the Regulatory Frameworks for Stand-Alone Power Systems – Priority 2.</p> <p>One licensee with both a distribution and retail licence was concerned that it had to deal with potentially redundant provisions.</p> <p><u>Response:</u></p> <p>The licensees covered by the Commission's small-scale network regulatory framework correspond to AEMC categories 2 and 3. The AEMC's Category 1 covers licensees with a much larger customer base.</p> <p>The Commission notes application of the National Energy Customer Framework is a policy matter for the State Government. Until advised to the contrary, the Commission will continue to administer its regulatory framework for small-scale networks.</p>

No.	Topic	Issue	Response
		information and communication protocols between the distributor and retailer. In practice, Origin is both the distributor and retailer and as such, these conditions are redundant.	<p>The Commission has been in consultation with the AEMC. The Commission does not believe that there is any inherent conflict between the VTA and AEMC models. Both models seek to focus regulatory effort on those licensees deemed to have a higher risk of failing to meet their regulatory obligations.</p> <p>Finally, with respect to Origin's comments, the Commission notes that although Origin operates at both the distribution and retail level, this need not be the case for all licensees now or in the future. While the Commission acknowledges this may be a frustration to multiple licensees such as Origin, this need not suggest the overarching licensing framework should be amended.</p>
8.	Setting service standards	The Clean Energy Council asked if the Commission will regulate reliability for Category 2 microgrids	<p><u>Commission understanding of issue:</u></p> <p>The Clean Energy Council asked if the Commission will regulate reliability for Category 2 microgrids.</p> <p><u>Response:</u></p> <p>The Commission does not generally set any customer service and reliability service standards or targets for licensees (see section 2.3.3 of the Draft Inquiry Report). An exception to this are the licences of small-scale electricity network service providers which contain quality and interruption of supply obligations. So the Commission would only consider imposing reliability standards for Category 2 microgrids if the evidence supported the benefits of doing this outweighed the costs.</p> <p>Finally, the Commission also notes the Technical Regulator monitors compliance with the Safety, Reliability, Maintenance and Technical Management Plans of licensees. As a small-scale network, this would apply to Category 2 microgrids.</p>
9.	Licensee ownership model	Alexandrina Council submitted that public ownership presented some specific challenges, namely that:	<p><u>Commission understanding of issue:</u></p> <p>Poor performance of publically-owned essential services may be due primarily to resourcing and organisational awareness, but also competing priorities arising from different compliance obligations and</p>

No.	Topic	Issue	Response
		<ul style="list-style-type: none"> <li>▶ based on the proposed framework, the potential key risk within local government is the reduction in organisational awareness of the needs of the service</li> <li>▶ local government governance of an utility requires some improvement, and that the highest demands on the utility generally come from internal governance, generally due to conflicting priorities based on Local Government Act compliance above all other regulations</li> <li>▶ a challenge for small-scale utilities is the conflict between regulator objectives</li> <li>▶ it would be ideal if the VTA model considers the broader governance of the utility and advocates other entities to follow similar cultural shifts in their governance models, and</li> <li>▶ poor performance in publically-owned essential services is based on inadequate resourcing and/or lack of localised capability – if the utility is appropriately governed, the community (customer) would be the primary focus.</li> </ul>	<p>regulatory objectives. These were considered specific challenges of public ownership.</p> <p><u>Response:</u></p> <p>The Commission's regulatory framework is ownership neutral. Also the Commission is of the view that the factors presented are not necessarily specific to public ownership. They can present themselves across all ownership structures, albeit in differing forms and with differing nomenclature. For example, organisational awareness issues do not present specific challenges to the public sector, the private sector will also face them. What may differ is why they occur and how they are solved. Both of which are for the organisation to resolve and not directly relevant to the Commission's regulatory framework.</p> <p>Also, regarding the potential for conflicting priorities arising from various legislative requirements, under section 155 of the <i>Local Government Act 1999</i>, any price determination made by the Commission prevails over any other price-related regulation. This ensures prices reflect the long-term efficient cost, to ensure sustainability of the service, given the National Water Initiative's pricing principles adopted by the Commission.</p>
10.	Liability for inherited networks	Alexandrina Council submitted that small-scale utilities can provide a high risk to regional development, as developers may undertake work for the lowest immediate cost with little or no concern for the long-term economic sustainability of the essential services. Further, that approval of those licences and any subsequent verification should have a regional strategic and long-term sustainability framework applied.	<p><u>Commission understanding of issue:</u></p> <p>A licensee submission that more planning regarding long-term sustainability needs to be built into licensing and verification processes, and that developers incentives may not align with long-term sustainability objectives.</p> <p><u>Response:</u></p> <p>While the Commission agrees that effective asset management plans to ensure long-term sustainability at an efficient cost is important, it is of the view that this is a concern for the licensee to manage. So, it is for a licensee to manage the risks associated with contractual arrangements it might put in place with developers.</p>

No.	Topic	Issue	Response
			Overall, it is the responsibility of a licensee to manage the long-term sustainability of its network, given the circumstances faced. The Commission does not consider it appropriate to seek to transfer risks associated with this to a licensing framework, as this is not best placed to manage them.
<b>ENERGY AND WATER OMBUDSMAN SA MEMBERSHIP</b>			
11.	Mandatory membership of the Energy and Water Ombudsman SA (EWOSA)	<p>Alexandrina Council, City of Tea Tree Gully, DEM, SACOSS and the Tea Tree Gully CWMS Residents' Action Group submitted support for all licensees becoming members of EWOSA.</p> <p>Origin submitted support for access to an independent dispute resolution body in the event a service provider and customer are unable to agree a satisfactory resolution to a customer complaint. However, Origin submitted that EWOSA membership should not be mandated, but rather at the Commission's discretion, where the Commission finds evidence it is necessary. Origin also considers, based on the available evidence, there is currently no justification for LPG networks to be subject to EWOSA membership.</p> <p>Adelaide Hills Council submitted that it does not see the benefit in joining EWOSA as local government licensees have several complaint handling mechanisms already in place, and therefore is cautious that EWOSA membership may not result in an increased level of service to its customers.</p>	<p><u>Commission understanding of issue:</u></p> <p>Some stakeholders submitted support for all licensees becoming members of EWOSA. However, Origin and Adelaide Hills Council disagree because there is no evidence that there is currently an issue with the ability of the licensee and its customers achieving a satisfactory resolution to a customer complaint.</p> <p><u>Response:</u></p> <p>This issue and the proposed role of EWOSA is discussed in Chapter 5 of the Draft Inquiry Report.</p>
12.	Operational factors	<p>Adelaide Hills Council also submitted that it was not clear on what legislative powers EWOSA has to enforce a decision.</p> <p>Alexandrina Council submitted that the EWOSA should expand its mediation scope to include the licensee as a customer.</p> <p>SACOSS raised concern that licensees with less than 30 customers may not be able to join the EWOSA scheme.</p>	<p><u>Commission understanding of issue:</u></p> <p>Stakeholders raised concerns about EWOSA's legislative and operational framework.</p> <p><u>Response:</u></p> <p>The proposed role of EWOSA is discussed in Chapter 5 of the Draft Inquiry Report.</p>



No.	Topic	Issue	Response
			<p>The Commission considers that any expansion of EWOSA's mediation role is a matter for EWOSA to consider.</p> <p>Regarding minimum customer numbers, EWOSA has advised the Commission that licensees with less than 30 customers are able to join the EWOSA scheme.</p>
<b>HARMONISATION</b>			
13.	Harmonisation efforts between and within industries	<p>SACOSS submitted support for harmonisation across licences or through the implementation of an industry code, supporting Framework and Approach Option 2 (see item number 1).</p> <p>Origin, while supporting harmonisation, submitted that the following factors are important to achieving a good outcome:</p> <ul style="list-style-type: none"> <li>▶ a material net benefit to the community needs to be clear</li> <li>▶ should be fit for purpose</li> <li>▶ should be mindful of the impact on individual service providers and aim to provide a net benefit to individual providers, and</li> <li>▶ not lead to higher obligations in an industry that cannot be justified by the circumstances of that industry.</li> </ul> <p>Origin submitted concern that harmonisation could lead to more regulation for reticulated LPG networks, noting that it considers regulatory costs are already high (see item number 2) and that the Commission's own assessment indicates there are no current service issues.</p> <p>The City of Tea Tree Gully submitted that imposing the same requirements on regional and metropolitan licensees may not be in the best interest of (metropolitan) customers and community, when environment factors, community needs and expectations are likely to differ between regional and metropolitan areas.</p>	<p><u>Commission understanding of issue:</u></p> <p>Submissions were generally supportive of harmonisation. However, concerns were raised should the process lead to the same or more requirements being imposed on licensees, resulting in imposing regulatory costs for no benefit on some licensees.</p> <p><u>Response:</u></p> <p>The proposed approach to harmonisation is discussed in Chapter 4 of the Draft Inquiry Report.</p>

No.	Topic	Issue	Response
		Adelaide Hills Council submitted concern that the process of harmonising the regulatory instruments across industries may result in an increase in regulatory requirements for one or more industries to bring them in line with the others. Further, the same may apply to harmonisation within industries.	
<b>OTHER MATTERS</b>			
14.	Metering	The City of Marion stated that it would like the Commission to further investigate the need for actual metering for billing on small-scale networks. It submitted that the economics of billing small volumes of water do not always justify the costs of installing water meters, meter reading, calibration and administration costs around invoicing. It stated that a fixed rate including service charge and consumption, based on comparative analysis, to be agreed by the Commission, may be a more cost-effective method of encouraging alternative water supplied to potable water.	<p><u>Commission understanding of issue:</u></p> <p>The economics of billing small volumes of water does not always justify the costs of installing water meters, meter reading, calibration and administration costs around invoicing.</p> <p><u>Response:</u></p> <p>The Commission notes there is currently no legislative requirement to install meters on water services. As such, a licensee should assess the options available and decide whether the benefits of metering outweigh the costs, noting that such analysis should encompass the costs and benefits to the customer, not just those for the licensee. Under the VTA model, the expectation is that any approach considered should be made in consultation with the impacted customers.</p>

