

Small-scale Networks Inquiry – Framework and Approach - June 2019

Strategic Position.

The document highlights that the objective of the framework is to protect the consumer's long-term interests with respect to price, quality and reliability. One of the key challenges for small scale utilities is the conflict between regulator objectives when determinations need to be made. Priorities for different regulators often conflict with each other, with no framework for prioritisation.

It is this reason that the framework should be considered based on a broader context of 'total regulation'. This may include consultation with LG, EPA, OTR and Department of Health first principles so that universal and prioritised objectives can be strategically achieved.

An example of this is the focus on price for the customer as a strategic deliverable. The consultation paper refers to the customer's willingness to pay. I believe this strategic aspiration sends the wrong message to the customer. The price should be an output of the service based on meeting quality, risk mitigation, sustainability and reliability aspirations. Economic optimisation should be a strategic focus but it should not displace other key aspects of managing a utility. This is generally a short-term political driver that ultimately ends in future cost increases for the service.

Furthermore the principles that governed the development of the framework focus (p4) highly on the competitive markets. This once again is a preconceived assertion that the outcome will produce better pricing for customers. These principles are sound when considering monopoly markets within the private sector, where price gouging is a realistic risk. However I think this potentially increases the risk of increased privatisation of essential services. The initial lowest price is definitely not the most economical outcome across the lifecycle of the service and assets. The risk must be considered simply based on cultural shift towards 'service for profit'. As discussed below publically owned services should be governed based on different risks.

ESCOSA should be commended.

Philosophically this is the first regulatory body that has provided a governance model that considers the 'value-add' to the customer as a primary focus. This is an operational model approach which is design to empower the service delivery with all other aspects determined as subservient and supportive to the customer. Personally I don't consider the current reporting requirements particularly onerous but this has broader implications if it can be set as a cultural precedent for other organisations.

Based on this, with the following considerations below, I would endorse Option 3 as the preferred model moving forward. This would need some improved rigour in the verification framework to ensure the broader service, community and future customers are not exposed.

Potential Risks

Small scale utilities in urban development can provide a high risk to regional development. Developers within regions will undertake works for the lowest immediate cost with little or no concern for the long-term economic sustainable of the essential services. This is where a system like

this could be exploited. Firstly approval of these licences and then any verification should have a regional strategic and long-term sustainability framework applied.

Regulation is generally a good way to deter purely priced driven. This is especially problematic in private industry with asset management and planning generally programmed on maintaining profit margins. ESCOSA's approach to create independent business units, especially within local government, has controlled and empowered improvements in the sector. Although pricing and/or profit margins can still be realised via controlled asset replacement, at least local governments now are in the position to resource the needs of the service without extensive political influence. This places 'not-for-profit' utilities at an advantage to provide services at better pricing when managed appropriately.

Based on the proposed framework the potential key risk within local government is the reduction in organisational awareness of the needs of the service. Local government governance of a utility requires some improvement and this may reduce the profile even further. The highest demands on the utility generally come from internal governance within the LG. This is generally due to conflicting priorities based on LG Act compliance above all other regulations. It would be ideal that this framework considers the broader governance of the utility and advocates other entities to follow similar cultural shifts in their governance models.

Methodologies for ensuring the sustainability of the service and protecting against step-change price increases could be ensuring rigour around long-term infrastructure planning. Growth drivers should be considered to meet >10 year projections. The planning and integration of renewal, upgrade and expansion is key to ensuring that the cost of future infrastructure is optimised. I would be using this framework and the verification process to ensure that there is a high level of due diligence in this strategic area. 2.3.3 depicts the current state as showing no detrimental impact to their customers but these risks should be considered based on the potential maladministration of long-life assets.

2.3.2 refers to perpetual poor service based on the lack of competition. Even though this is highlighted as not a key concern based on the lack of complaints, I still think the assertion is misguided. The distinction here is between public and privately owned schemes. I would suggest that 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.

The notion of utilising EWOSA as the dispute regulator would be a welcome one. However it would be good for EWOSA to expand the mediation scope to include the utility as a customer. Personally arrangements with developers can be problematic and it would be ideal to have independent mediation when deliberations have stalled. This will only help reduce the potential financial and/or service impacts on the community and customers.