



1 August 2019

Mr Sean McComish – Director Advisory and Research
Essential Services Commission
GPO Box 2605
Adelaide SA 5001

Email: escosa@escosa.sa.gov.au

Dear Mr McComish,

RE: SMALL-SCALE NETWORKS INQUIRY – FRAMEWORK AND APPROACH

Origin welcomes the opportunity to respond to the Essential Services Commission's (ESCOSA) inquiry into the regulatory framework and approach covering small-scale water, sewerage and energy services.

Origin supports ESCOSA's work in this area and encourages moves toward reducing the regulatory burden associated with small-scale networks.

In relation to energy, Origin reticulates liquefied petroleum gas (LPG) to over 2,000 customers across six reticulation networks in South Australia covered by the Reticulated LPG Industry Code (the Code). The focus of our responses in this submission is on this segment of the small-scale energy supply market.

Origin notes ESCOSA's assessment that small-scale network service providers do not appear to be behaving to the detriment of their customers and that this, in part, may indicate that the current regulatory regime is assisting in achieving desired outcomes. In relation to LPG, ESCOSA also notes that it has not been presented with any evidence to suggest that prices are inefficient, or that viable substitutes do not exist. Further, LPG service levels appear satisfactory, with ESCOSA noting that, since 2014-15, there have been no complaints reported relating to quality of supply with reticulated LPG network service providers.¹

On the basis of its assessment, ESCOSA suggests that it may be possible to move toward a less prescriptive regulatory regime and that such a move might provide better outcomes for both customers and service providers. Origin concurs with these findings and supports moves toward a more light-handed regulatory regime. Given the small size of the reticulated LPG market in South Australia and the availability of alternative sources of supply, we consider the existing compliance obligations and associated costs to be disproportionate.

As noted in previous submissions, Origin's compliance costs are significantly higher in South Australian compared to other jurisdictions (for example Queensland, where Origin supplies a much larger customer base via reticulated LPG). While Origin strongly supports regulation in relation to the safe delivery of LPG and other sources of energy, in the case of reticulated LPG supply, the availability of viable alternatives such as bottled LPG means there is little justification to continue regulating suppliers so comprehensively.

¹ ESCOSA, Small-scale Networks Inquiry Framework and Approach, June 2019, p. 17.

ESCOSA presents four potential alternative regulatory regimes ranging from retention of the existing regime (Option 1) to a harmonised lighter-handed regime (Option 4). The lighter-handed approach allows ESCOSA to exempt individual entities from reporting requirements and instead adopt a “trust and verify” approach (trust-verify). This approach relies first on a service provider demonstrating that it is a competent operator. ESCOSA states that a competent operator is:

a service provider that provides essential services that customers want, that are sustainable, and provided at a price that accounts for customer’s willingness to pay, legislative requirements and affordability – noting the need to effectively manage any conflicting tensions between these factors.²

In the first instance, ESCOSA expects the majority of existing small-scale service providers could demonstrate the characteristics of competent operation and could therefore be trusted to operate without the need for prescriptive reporting and compliance frameworks. Unless evidence is presented to the contrary, these service providers are assumed to be acting competently and performing appropriately.

Origin supports the adoption of the proposed trust-verify approach.

ESCOSA also proposes the option of harmonising the regulation of small-scale networks, to the extent practicable. Harmonisation involves potential changes to regulatory instruments to clarify points where necessary and to reduce duplication, while ensuring the content of the instruments remain appropriate. This would include adding consistency between industries e.g. consumer protections and within industries e.g. consistency across licences within an industry.

Origin supports harmonisation in principle but agrees with ESCOSA that the material net benefit to the community from such harmonisation needs to be clear. In addition, Origin considers that any attempt at harmonisation should be mindful of the impact on individual service providers and aim to provide a net benefit to individual providers. For example, harmonising across industries to achieve consistency may result in changed/higher obligations or requirements in an individual industry. Origin considers that this would be an inappropriate outcome of harmonisation, particularly with respect to LPG networks where ESCOSA’s own assessment indicates there are no current service issues.

Further, Origin consider that any effort toward harmonisation or alterations to the regulatory framework should be fit for purpose. We note that some areas of the current licensing regime may fall short in this regard. For example, Origin holds a Distribution and Retail licence in respect of its SA reticulated networks. There are a number of licence conditions requiring sharing of 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.

Origin looks forward to participating in stakeholder consultation in respect of any harmonisation proposals.

ESCOSA suggests that Option 4, harmonise the current regulation while transitioning toward a lighter-handed approach, represents a potential transition path. Notwithstanding the above caveats with respect to harmonisation, Origin agrees that Option 4 represents the preferred option. In particular, given ESCOSA’s assessment of the current regulatory framework with respect to service quality and reliability and customer complaints for LPG networks, we consider a less prescriptive approach is warranted.

LPG reticulations service small markets and therefore regulatory requirements pose a genuine cost impact that must be recovered from very small customer bases. Any move to reduce these regulatory

² ESCOSA, *Small-scale Networks Inquiry Framework and Approach*, June 2019, p. 24.

requirements, particularly with respect to reporting requirements, will result in net benefits to both customers and service providers. Origin considers that the reduced regulatory requirements can be achieved without compromising customer service levels, particularly in the case of LPG reticulation where the existence of a vibrant and competitive bottled LPG market acts as an appropriate customer safeguard.

In relation to dispute resolution, ESCOSA proposes that all small-scale network providers become a member of the Energy and Water Ombudsman of South Australia (EWOSA) regime. ESCOSA notes that this would provide customers with a single transparent avenue through which to channel complaints that cannot be resolved directly with the service provider and will also provide a consistent and reliable source of complaint information for ESCOSA.

Origin sees merit in the proposal to provide 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 considers that participation in the Ombudsman scheme should not be compulsory, but rather should be at ESCOSA's discretion where ESCOSA finds evidence that it has become necessary. On the available evidence, Origin considers there is no justification for LPG networks to be subject to EWOSA membership.

If you have any questions regarding this submission, please contact Gary Davies in the first instance at gary.davies@originenergy.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sean Greenup', written over a faint rectangular stamp.

Sean Greenup
Group Manager Regulatory Policy
(07) 3867 0620 sean.greenup@originenergy.com.au