



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

The Commission has released the Final Report for the Inquiry into regulatory arrangements for small-scale and off-grid water, gas and electricity services (**small-scale networks**).

Overview of the Inquiry

The Inquiry was undertaken to identify enhancements and refinements to the Commission's existing economic regulatory framework for small-scale networks, in line with the Commission's primary objective to protect South Australian consumers' long-term interests with respect to the price, quality and reliability of essential services.

Small-scale networks cover:

- ▶ water and sewerage (water industry) networks with 50,000 connections or less
- ▶ off-grid electricity networks, and
- ▶ reticulated natural gas and liquid petroleum gas networks.

There are currently 83 small-scale network entities licensed by the Commission, including local government, private operators and not-for-profit organisations, mostly based in outer metropolitan and regional areas of South Australia.

Outcomes of the Inquiry

The key changes to the Commission's regulatory framework arising from the Inquiry are:

- ▶ Adoption of a new regulatory approach for licensed small-scale networks. This is called a verified trust and accountability (**VTA**) regulatory approach in the Final Report.
- ▶ All small-scale network licensees to become members of the Energy and Water Ombudsman (SA) Limited scheme (**EWOSA**).

What does this mean for customers?

Customers will have access to a consistent complaint and dispute resolution process, which has the power to provide remedies. Customers will also have greater transparency, and an independent view, on the extent to which licensees are providing services in a sustainable and competent manner.

What is the VTA approach?

The VTA approach is a targeted, flexible approach to regulation. As well as accounting for existing compliance obligations, it increases transparency by placing more emphasis on licensed small-scale networks providing assurance to their customers, and the Commission, that the services provided through its small-scale network infrastructure are sustainable over the medium to longer term. Practically, and as outlined in the Final Report, this means assessing licensed small-scale network operators in order to obtain such assurance, or otherwise.

Under the VTA approach, the Commission will assess each licensee and place it in one of two categories, using a transparent assessment framework:

- ▶ **Category A:** licensees considered trusted to competently run their networks, with less prescriptive regulatory oversight. What this means is explained in the Final Report. Category A licensees benefit from reduced regulatory reporting.
- ▶ **Category B:** licensees where there are concerns regarding network performance, with respect to either compliance, medium to long-term service sustainability, or both – and there does not appear to be a credible, measurable rectification strategy. This does not imply or mean that the licensee's operation is unsafe,

but indicates that customers are facing a higher level of service risk than appropriate.

The results of the assessment for each licensed small-scale network operator will be publicly available. This ensures customers and licensees have transparency regarding the outcome of the assessment.

Classification of licensees may change, depending on the licensee's performance over time.

How will the VTA approach be implemented?

Implementation of the VTA approach will occur in a staged manner, with multiple opportunities for stakeholder engagement and collaboration. The Commission will work with licensees to:

- ▶ Develop a data baseline, drawn from market intelligence and existing performance data for each licensee.
- ▶ Develop an understanding of what is likely to be material in the context of performance outcomes over time, given the operational context of each licensee.
- ▶ Make changes to reporting guidelines and vary licence conditions where necessary.
- ▶ Assess each licensee as Category A or B. Licensees assessed as Category B will have an opportunity to respond and engage with Commission staff, to identify a credible, measurable, rectification strategy that supports a Category A classification.

During implementation, the Commission will continue to engage with licensees, providing regulatory education and advice to assist licensees, while enhancing its own data analysis techniques and practices, and its understanding of each licensee's small-scale network operations.

What are the reduced annual reporting requirements?

A Category A licensee's annual reporting return will be limited to the following:

- ▶ a list of office holders, to assure the Commission that the licensee is a fit and proper person
- ▶ connection and customer numbers, to be used primarily for calculating Commission licence fees (water), and EWOSA membership fees respectively
- ▶ information on hardship and affordability

- ▶ identification of any material changes to operations, and
- ▶ a statement of assurance that the licensee is complying with its obligations and engaging in a competent operation.

Category A licensees will also be required to provide immediate ('real time') information regarding any material service or compliance issues arising, the response, and the outcome.

The annual reports and real time notification will augment the Commission's data, along with information from EWOSA, other regulators, and enhanced market monitoring.

With the introduction of the VTA approach in July 2022, licensees assessed as Category A will submit reduced annual reports for the 2021-22 year (due in November 2022).

What are the regulatory requirements for Category B licensees?

Category B licensees face tailored regulatory requirements, until the identified concerns have been addressed. The Commission will tailor those regulatory requirements to drive the changes necessary to protect consumers' interests, and in a way that is proportionate to the concerns identified.

Why become members of the Energy and Water Ombudsman SA Limited scheme?

EWOSA's role is to "*facilitate the prompt resolution of disputes between the consumers of energy and water services and the providers of those services, by providing a free, independent accessible, fair and informal service to consumers*".

The Commission has decided that all licensees will become members of EWOSA, which will provide the following benefits:

- ▶ all customers and licensees will have access to an experienced and expert independent complaints and dispute resolution service with the power to provide remedies, and
- ▶ the Commission will obtain consistent and comprehensive information about emerging trends or systemic issues arising in each of the regulated industries, which will form a critical element of the VTA approach.

Licensees must become members of EWOSA by 30 June 2022.

Further Information

Further information on the Inquiry can be found on the Commission's website at:

<https://bit.ly/SmallScaleInquiryProject>

or by contacting Sean McComish, Director, Advisory and Research, on 08 846 34447 or at Sean.McComish@sa.gov.au.

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