



# Small-scale Networks Inquiry

## Response to Issues Paper Submissions

June 2019

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## Glossary of terms

Commission	Essential Services Commission, established under the Essential Services Commission Act 2002
CWMS	Community wastewater management system
DSD	Department of State Development, Energy Markets and Programs
ESC Act	Essential Services Commission Act 2002
EWOSA	Energy and Water Ombudsman (SA)
LGA	Local Government Association
LPG	Liquid petroleum gas
SACOSS	South Australian Council of Social Service
SAFCA	South Australian Financial Counsellors Association
Small-scale networks	Comprising, South Australian: <ul style="list-style-type: none"> <li>▶ water and sewerage networks with 50,000 connections or less</li> <li>▶ off-grid electricity, and</li> <li>▶ reticulated LPG networks</li> </ul>
Treasurer	Treasurer for the South Australian Government
Minister	Minister for the Water and River Murray (Change for specific Industry)
WI Act	Water Industry Act 2012

# 1 Executive summary

The Commission requested submissions to a Small-scale Networks Inquiry Issues Paper in August 2016, and received submissions from:<sup>1</sup>

- ▶ City of Onkaparinga
- ▶ Department of State Development, Energy Markets and Programs (**DSD**)
- ▶ District Council of Lower Eyre Peninsula
- ▶ District Council of Mount Barker
- ▶ Energy and Water Ombudsman SA (**EWOSA**)
- ▶ Environmental Land Services
- ▶ Local Government Association of South Australia (**LGA**)
- ▶ Mid Murray Council
- ▶ Origin Energy
- ▶ SA Water
- ▶ Mr C Shipard
- ▶ South Australian Council of Social Service (**SACOSS**)
- ▶ South Australian Financial Counsellors Association (**SAFCA**), and
- ▶ Urban Development Institute of Australia, SA Division.

In addition, the Commission received two confidential submissions.<sup>2</sup>

Table 1 lists the issues raised during consultation on the Issues Paper and the Commission's response. To the extent considered necessary, further consideration of the matters raised in submissions may be given in the preparation of the Draft Decision, following consultation on the Framework and Approach paper.

The contents of Table 1 are grouped according to:

- ▶ Better Regulation Framework – Key elements of the Framework are evidence-based and risk-based approaches to regulation (items 1-2)
- ▶ Customer perceptions and interests – a snapshot of stakeholder views on the performance of the current regulatory framework (items 3-5)

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<sup>1</sup> Essential Services Commission, *Inquiry into Regulatory Arrangements for Small-Scale Water, Sewerage and Energy Services*, Issues Paper, August 2016, available at <https://bit.ly/2JpPaU1>.

<sup>2</sup> In the interests of transparent decision-making, it is the Commission's policy to make all submissions publicly available on its website, except where a submission contains confidential or commercially sensitive information. However, points contained in confidential submissions cannot be publicly tested and therefore may not be given the same weighting as published submissions.

- ▶ Market structure and operation – evidence from stakeholders on the nature of the market for small-scale network services (items 6-15)
- ▶ Service provider environment and legislative framework –role of the legislative environment with respect to differing ownership structures (item 16)
- ▶ Regulatory response – stakeholder views on what factors should be considered in developing a good regulatory framework (items 17-38)
- ▶ Other – remaining issues raised in submissions, some of which are out of scope for this Inquiry (items 39-44).

A reference in the Topic column to a submitter responding to a Question, is a reference to the questions posed in the Commission’s Issues Paper.

This table does not attribute issues raised in confidential submissions received. The key issues raised in such submissions have been covered in the publicly available submissions.

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

No.	Topic	Issue	Response
<p><b>BETTER REGULATION FRAMEWORK</b> – The Commission is employing its Better Regulation Framework to identify whether the regulatory regime might benefit from amendment (noting also that regulation may not be the best solution). Key elements of the Better Regulation Framework are evidence-based and risk-based approaches to regulation.</p>			
1	Outcomes-based, risk-based framework	<p>SACOSS submitted:</p> <ul style="list-style-type: none"> <li>▶ It is not opposed In-principle to an outcomes-based framework coupled with a risk-based approach to regulation, as long as such an approach does not compromise the long term interests of consumers.</li> <li>▶ Outcomes-based measures should be informed by consumer experience, and the outcomes sought should not only reflect service provider conduct but also how well consumer needs are met.</li> <li>▶ In this context, the Commission may wish to consider a set of minimum service standards to ensure all customers are guaranteed their essential needs are met.</li> </ul> <p>SA Water submitted continued support for regulation that:</p> <ul style="list-style-type: none"> <li>▶ is outcomes and risk-based</li> <li>▶ is driven by customer expectations</li> <li>▶ is balanced in terms of benefits delivered and the cost to the service provider to participate and comply, and</li> <li>▶ provides long term security and economic efficiency to customers of new infrastructure.</li> </ul>	<p><u>Commission understanding of issue:</u></p> <p>Subject to various matters raised, there is some stakeholder support for an outcomes-based, risk-based regulatory framework.</p> <p><u>Response:</u></p> <p>The Commission’s analysis will have regard to the specific matters raised when considering whether the regulatory regime might benefit from amendment.</p>
2	Single unified framework covering small and large service providers	<p>SA Water submitted it understands the Commission applies varying levels of regulation and regulatory oversight to service providers based on the risk they pose to the customer. In a simplistic form, this risk can be measured by the number of customers the service provider services and therefore its potential impact on those customers.</p> <p>SA Water submits that while it understands this is the logical approach, as regulatory regimes mature the level of regulation and regulatory oversight should be adjusted commensurate with the service provider’s response to the regulatory framework. This frees up regulatory resources to focus on those service providers that are not responding to customer expectations.</p>	<p><u>Commission understanding of issue:</u></p> <p>Regulation and regulatory oversight should respond to the assessed level of risk. Risk might be measured in terms of the number of customers the service provider services.</p> <p><u>Response:</u></p> <p>Under a risk-based approach to regulation, the level of regulation and oversight should be responsive to the level of assessed risk. An important aspect of this Inquiry will be to consider appropriate risk measures in the context of small-scale network service providers (for example, targeted and ad hoc audits). The outcome of this may not relate risk to the number of customers (see</p>

No.	Topic	Issue	Response
			item 30). Further, the extent to which there would and should be consistency across small and large scale service providers is not part of the terms of reference for this Inquiry.
<p><b>CUSTOMER PERCEPTIONS AND INTERESTS</b> - The Commission's primary objective is to protect the long term interests of South Australian consumers with respect to the price, quality and reliability of essential services. A useful input into considering proposals for change is to understand what customers are most interested in and the extent of any customer dissatisfaction with the outcomes of the current regime.</p>			
3	Customer satisfaction	<p>The South Australian Financial Counsellors Association (SAFCA) submitted the results of its survey of customers of water and sewerage small-scale network service providers, undertaken in September 2016. The results show that customers were largely satisfied with the services they received at that time.</p> <p>However:</p> <ul style="list-style-type: none"> <li>▶ SAFCA submitted there were some localised issues regarding services and a wider issue regarding comparative costs with metropolitan areas.</li> <li>▶ Mid Murray Council (responding to Question 1(a)) submitted that residents are concerned with the reliability of the community wastewater management system (<b>CWMS</b>), particularly during the high usage tourist season.</li> <li>▶ Mr Shipard (private individual) submitted discontent with the lack of information and consultation provided by the council service providers<sup>3</sup>.</li> </ul> <p>Based on the survey results, SAFCA submitted:</p> <ul style="list-style-type: none"> <li>▶ no additional regulation of small-scale network water and sewerage service providers is required to meet customer needs and expectations</li> <li>▶ some action was warranted regarding the application of hardship provisions (see item 22) and extending concessional arrangements to customers of private service providers (see item 41), and</li> <li>▶ service providers should consider using a consumer engagement model for the next round of regulatory determinations.</li> </ul>	<p><u>Commission understanding of issue:</u></p> <p>Most water and sewerage small-scale network customers are happy with the services they receive. Service reliability is central. However, there may be an issue with the internal dispute resolution processes within some service providers.</p> <p>Some service providers are failing to engage effectively to the satisfaction of their customers.</p> <p><u>Response:</u></p> <p>This Inquiry will have regard to the specific matters raised when considering whether the regulatory regime might benefit from amendment. In particular, the importance of addressing any failings of dispute resolution processes and the level and manner in which service providers engage with their customers. However, the evidence presented here does not support adopting a more heavy-handed or more prescriptive regulatory approach.</p>

<sup>3</sup> The council service provider being the District Council of Franklin Harbour (covering the town of Cowell).

No.	Topic	Issue	Response
		<p>SACOSS submitted:</p> <ul style="list-style-type: none"> <li>▶ that a key finding of the SAFCA survey<sup>4</sup> was that ‘generally, most customers of small and intermediate [small-scale network] water and sewerage providers are happy with the services they receive’ and ‘there is little evidence of systemic issues’ for these customers</li> <li>▶ however, 20% of customers were either experiencing financial difficulty in paying a bill or felt their service provider was unresponsive in resolving issues (see item 22), but that these issues tended to cluster around specific service providers, rather than be a generic issue – which suggested to SACOSS that there may be an issue with the internal dispute resolution processes within some service providers, and</li> <li>▶ that given these results, the Commission should focus on the effectiveness of service provider internal dispute resolution procedures, particularly where it becomes evident that customers of a particular service provider are experiencing unresolved issues.</li> </ul> <p>Both Origin and Environmental Land Services (Pty Ltd) submitted that the existing regulator arrangements are sufficient to enable them to support reticulated LPG customers (see item 13).</p>	
4	Customer primary concerns (Responding to Question 1(a))	<p>Mid Murray council submitted that residents are concerned with the costs associated with CWMS, including licensing and legal obligation costs.</p> <p>Onkaparinga Council submitted (based on issues that Council directly engages customers on) that the water and wastewater services customers are mainly concerned with:</p> <ul style="list-style-type: none"> <li>▶ system reliability and affordability (CWMS)</li> <li>▶ response to breakdowns (CWMS)</li> <li>▶ septic tank cleaning (CWMS)</li> <li>▶ system connections (Water Supply and CWMS)</li> <li>▶ response to enquiries (Water Supply and CWMS), and</li> <li>▶ water quality, flow and pressure (Water Supply).</li> </ul>	<p><u>Commission understanding of issue:</u></p> <p>The primary concerns of customers cover matters such as reliability, affordability and engagement by service providers.</p> <p><u>Response:</u></p> <p>The results of the SAFCA survey are useful in understanding the relative importance of these matters to customers (see item 3).</p>

<sup>4</sup> SACOSS submitted that following a recommendation by SACOSS, SAFCA was contracted by the Department of Communities and Social Inclusion (DCSI) to undertake a survey of customers of small-scale network water and sewerage service providers to better understand their experiences with their service providers.

No.	Topic	Issue	Response
		<p>Mr Shipard submitted concern that his service provider (council) was not listening to its customer base, and the Council's business proposal for a new CWMS raises the concern that ratepayers may be forced to decommission their on-site aerobic wastewater treatment systems and forfeit the recycled water from their individual systems.<sup>5</sup> Mr Shipard submitted that Council's responses '<i>... have not been very satisfactory</i>'.</p> <p>Environmental Land Services submitted that customers' primary concerns include cost, access to reticulated gas, safe and reliable supply and environment.</p>	
5	Current level of complaints	<p>Origin submitted that it has not received any systemic complaints from its reticulated LPG customers.</p> <p>Mount Barker District Council submitted that historically it had received very few complaints, with most customers wanting to 'flush and forget', provided they get a good service at the right price. During major adverse weather events there can be isolated issues impacting on a small number of customers. Council maintains 24 hour remedial action process. Zero complaints to EWOSA.</p> <p>District Council Lower Eyre Peninsula submitted that based on its Strategic Plan and three Annual Business Plan community meetings, there are no concerns with the CWMS services being delivered by this council.</p>	<p><u>Commission understanding of issue:</u></p> <p>These service providers have received very few (if any) complaints.</p> <p><u>Response:</u></p> <p>These submissions support the SAFCA survey that most water and sewerage small-scale network customers are happy with the services they receive (that is, based on low complaint levels).</p>
<p><b>MARKET STRUCTURE AND OPERATION: MARKET POWER</b> – The structure of the relevant market and the ability for a firm to possess market power are important factors in determining the extent to which a regulatory response may be required. The ease with which new service providers are able to enter the market is also an important determinant of the ability of incumbents to exercise market power to the detriment of competition.</p>			
6	Geographic markets	<p>SA Water submitted that South Australian small-scale service providers are generally localised operations with customers determined by <u>locale</u> as opposed to <u>choice</u>. Consequently, service provision needs to be responsive to the level of service those customers expect and the price they are willing to pay.</p>	<p><u>Commission understanding of issue:</u></p> <p>Small-scale network services are provided through a network to a relatively small number of localised customers. This means that the price-service trade-off has to account for their particular needs and circumstances.</p>

<sup>5</sup> Mr Shipard submitted that the existing (on-site) aerobic wastewater treatment systems advantages the householder by providing recycled water for domestic garden use, with around 100 such systems having been installed at Cowell. Further, that his Council is now pursuing a CWMS solution, '*which appears to create a monopoly and "free water" to the advantage of council and the sporting clubs' oval*'. Also submitting that the CWMS proposal presents an unfair financial and water disadvantage to all those currently operating an aerobic wastewater treatment systems.

No.	Topic	Issue	Response
			<p><u>Response:</u></p> <p>The localised nature of small-scale network operations increases the importance of service providers properly engaging with customers. This is particularly relevant to understanding what customers are willing to pay and the associated levels of service available. As such, it is important that a small-scale network service provider provides sufficient lead time to engage with its customer base prior to replacing or renewing underlying infrastructure if there is a risk of subsequent price shocks.</p>
7	Availability of substitutes	<p>Origin submitted that customers within reticulated Liquefied Petroleum Gas (LPG) networks have access to close substitutes (bottled LPG, electricity) and it is in the interests of a reticulated LPG network service provider to maintain customer satisfaction with the services provided.</p> <p>Environmental Land Services submitted that it faces substitutes to its service (see item 12, responding to Question 2(b)).</p>	<p><u>Commission understanding of issue:</u></p> <p>Service providers contend that the presence of substitutes provides reticulated LPG service providers with sufficient competition to focus on customer service, otherwise they might lose customers.</p> <p><u>Response:</u></p> <p>The extent to which substitutes provide an effective constraint on the market behaviour of small-scale network service providers is an important consideration in the Commission's application of a risk-based approach to regulation.</p>
8	<p>Any challenges for new entrants?</p> <p>– Existing regulatory framework</p> <p>(Responding to Question 3(a))</p>	<p>Onkaparinga Council submitted:</p> <ul style="list-style-type: none"> <li>▶ The Commission's pending pricing framework for small-scale network water and sewerage service providers is a barrier to market entry and function (see the council's response to Question 2(b) – item 12).</li> <li>▶ To a lesser extent, the application of the Commission's consumer protection and reporting/compliance frameworks can also be considered a barrier.</li> <li>▶ The start-up resource intensity for compliance has been considerable.</li> <li>▶ It acknowledged that there should remain mandatory requirements for all entities around key risk areas, on which it would welcome further discussion.</li> </ul> <p>Origin submitted:</p> <ul style="list-style-type: none"> <li>▶ The licensing regime for reticulated LPG is onerous and is unlikely to encourage new entrant investment.</li> </ul>	<p><u>Commission understanding of issue:</u></p> <p>Service providers submitted that the current regulatory framework represents a regulatory burden, which is onerous for existing licensees and is unlikely to encourage new entrants. The Commission should examine interstate regulatory models.</p> <p><u>Response:</u></p> <p>A key aspect for this Inquiry is to examine the potential for reducing regulatory cost and when this would be appropriate.</p> <p>However, reducing regulatory cost should not come at the expense of necessary service levels and protections for small-scale network customers.</p>

No.	Topic	Issue	Response
		<ul style="list-style-type: none"> <li>▶ The South Australian framework is burdensome (reporting, licensing etc.) relative to other states and given the availability of substitutes (see item 7) unlikely to contribute to efficient new entry.</li> <li>▶ It would encourage the Commission to align its work in this area with the COAG Energy Council (also see Item 38 for Origin’s discussion of the Queensland regime).</li> <li>▶ The Australian Consumer Law provides adequate consumer protections for customers choosing to enter into (optional) alternative models.</li> </ul> <p>The Urban Development Institute of Australia-South Australia submitted that while there is scope within the electricity market for alternative service providers, to date the opportunities are not being pursued.</p>	
9	<p>Any challenges for new entrants? - Cost of duplicating infrastructure</p> <p>(Responding to Question 3(a))</p>	<p>Urban Development Institute of Australia-South Australia submitted that there is little opportunity for new infrastructure providers to enter new developments and create competition because of the massive capital investment needed in most instances to link the main water sources to the location of development. This means that developers wishing to connect or augment existing infrastructure for a particular development have no other main infrastructure provider to negotiate with. This problem is not addressed by the third party access provisions in the WI Act.</p> <p>However, the Urban Development Institute of Australia-South Australia submitted that sewage infrastructure is amenable to alternative service and supply arrangements. But that an issue for the development industry is the lack of competitive neutrality with local government service providers (see item 10).</p> <p>Environmental Land Services submitted:</p> <ul style="list-style-type: none"> <li>▶ Costs to invest in the gas infrastructure and comply with the regulatory framework require a critical mass of customers.</li> <li>▶ In the larger scale Natural Gas Distribution (for example, Adelaide Metropolitan) there is genuine competition, but only at the retail level.</li> <li>▶ It has taken a long term view to recover its costs in Mount Barker and believes a network of 8000-10,000 connections can be cost efficient and commercially sustainable.</li> </ul>	<p><u>Commission understanding of issue:</u></p> <p>Small-scale networks require a critical customer mass to be viable in the long term. That is, to some extent, economies of scale are needed.</p> <p>It is contended that the current third-party access provisions in the WI Act are not promoting the entry of new infrastructure providers, and that private sector service providers can be placed at a competitive disadvantage with local government service providers (see item 10).</p> <p><u>Response:</u></p> <p>The extent to which economies of scale<sup>6</sup> exist in the provision of small-scale services is an important consideration in the application of a risk-based approach to regulation. In the case of small-scale networks, the absence of economies of scale might act as a barrier to new entrants and reduce the potential for effective competition to exist in the geographic region of a small-scale operation. This has relevance to item 8 and the role of regulation.</p>

<sup>6</sup> Economies of scale occur when the cost per unit of output declines with increasing scale. They are usually associated with a cost structure that has high fixed costs relative to variable costs

No.	Topic	Issue	Response
		<ul style="list-style-type: none"> <li>Concern at the impact on its returns should a new service provider be licensed to provide services in its geographic market [see item 28 (responding to Question 2(a))].</li> </ul>	Third-party access provisions of the WI Act are outside of scope for this Inquiry. However, the Commission is separately conducting a review of this regime, see <a href="#">2019 Review of the water third party access regime</a> .
10	Any challenges for new entrants? – Competitive neutrality  (Responding to Question 3(a))	<p>Urban Development Institute of Australia-South Australia submitted:</p> <ul style="list-style-type: none"> <li>An issue for the development industry is the lack of competitive neutrality with local government service providers, with local government often having a: <ul style="list-style-type: none"> <li>competitive advantage over private commercial service providers because of an existing network and existing plant which can be augmented</li> <li>market advantage of having a reputation of reliability and a financial underpinning that the commercial service providers need to overcome.</li> </ul> </li> <li>It is doubtful whether flat rate connection or augmentation fees relate to the true cost of infrastructure - they may involve cross subsidies.</li> <li>In some areas local government is attempting to compete in the marketplace. <ul style="list-style-type: none"> <li>submitting for instance, in Mount Barker the council has more actively attempted to compete against private service providers in order to win business for its sewer and CWMS schemes.</li> </ul> </li> <li>It is important in those instances that competitive neutrality principles are adhered to so that new market entrants are not kept out of the market, and new and innovative infrastructure solutions are not thereby impeded.</li> </ul>	<p><u>Commission understanding of issue:</u></p> <p>Developers submitted that they can be placed at a competitive disadvantage with government service providers.</p> <p><u>Response:</u></p> <p>Investigating local government adherence to competitive neutrality principles is outside the scope of this Inquiry.</p> <p>Concerns regarding competitive neutrality should, in the first instance, be dealt with through the Competitive Neutrality Secretariat in the Department of the Premier and Cabinet. There is an existing body of law and guidance materials that outline the practical implementation of a local government authority's competitive neutrality obligations, and the process for dealing with infringements.</p>
11	Any challenges for new entrants? - Rating on abuttal  (Responding to Question 3(a))	<p>Mr Shipard submitted that rating on abuttal<sup>7</sup> reduces the competitiveness of alternative options (such as maintaining an (on-site) aerobic wastewater treatment systems when a council CWMS is available). That, removing rating on abuttal is an important option to consider (in relation to a fully compliant standalone system).</p> <p>Whereas Mount Barker District Council submitted that if individuals do not wish to financially contribute towards the centralised schemes, then those schemes will also become less viable (or become a bigger burden for those who are connected)..</p> <p>Whereas Mount Barker District Council submitted:</p>	<p><u>Commission understanding of issue:</u></p> <p>Opinions differ as to whether rating on abuttal is in the interests of consumers or not.</p> <p><u>Response:</u></p> <p>Investigating the merits of rating on abuttal is outside the scope of this Inquiry. This issue was considered for SA Water in the Commission's 2014 <a href="#">Inquiry into Reform Options for SA Water's Drinking Water and Sewerage Prices-Final Report</a>.</p>

<sup>7</sup> The practice of "rating on abuttal", whereby a council can charge a fee to a landowner because a water or sewerage main passes adjacent, but not connected, to the landowner's property. That is, the landowner must pay even though not connected and therefore not receiving a direct service.

No.	Topic	Issue	Response
		<ul style="list-style-type: none"> <li>▶ Legislation enables service providers to recover reasonable expenses where blocks/individuals have access to but are not connected.</li> <li>▶ Due to community concerns (health, environment), councils and water authorities have invested significantly in centralised schemes and the viability of these schemes is dependent on the targeted community (to whom the service is applicable) contributing to the scheme.</li> <li>▶ With ever increasing regulatory costs and environmental expectations, operation of these schemes are also expensive to run and operate.</li> <li>▶ There is a clear benefit to the land and that is reflected in the value of the land.</li> </ul>	
12	<p>Instances of service providers over-recovering their long term efficient costs</p> <p>(Responding to question 2(b))</p>	<p>Mid Murray Council submitted that local government is already heavily regulated by the requirements of the Local Government Act, requiring it to account for its finances.<sup>8</sup></p> <p>Onkaparinga Council submitted:</p> <ul style="list-style-type: none"> <li>▶ While it did not believe it was over-recovering long term efficient costs in either of its water retail entities, there was a risk under NWI pricing principles of inaccurate asset valuations (that is, from assets being in excess of the needs of current customers) leading to subsequent over-recovery of (necessary) costs.</li> <li>▶ The Commission's regulatory framework could be used to further define valuation methodologies (for example, useful life of particular assets and reference to accounting standards etc.) as well as their application to different sized entities.</li> </ul> <p>District Council Lower Eyre Peninsula submitted it could demonstrate that its pricing structure is reasonable.</p> <p>Mr Shipard submitted that in relation to the specific proposal he raised in his submission (converting an aerobic wastewater treatment system to CWMS), the council service providers would over-recover the operating costs, the capital and interest costs, all from the sewerage ratepayer. This on the basis of Mr Shipard's</p>	<p><u>Commission understanding of issue:</u></p> <p>Governance arrangements established under the Local Government Act place a constraint on local government service providers seeking to over-recover costs (see item 16). However, it is important that due regard be given to the needs of current customers. Also, it is important to engage with customers so that they understand the pricing arrangements.</p> <p>In the case of reticulated LPG, substitutes provide some constraint on service providers seeking to over-recover costs.</p> <p><u>Response:</u></p> <p>The extent to which governance and the nature of the relevant market serve to provide a constraint on service providers seeking to exercise market power to the detriment of competition is a relevant factor for a risk-based approach to regulation. Based on the best evidence currently available to the Commission, there does not appear to be an issue with service providers over-charging.</p> <p>These submissions emphasise the importance of good customer engagement: to ensure infrastructure is not over-specified;</p>

<sup>8</sup> As a possible example of this, section 155(5) Local Government Act requires that 'a council must not seek to recover in relation to a prescribed service an amount by way of a service rate, annual service charge, or a combination of both exceeding the cost to the council of establishing, operating, maintaining, improving and replacing (including by future capital works and including so as to take into account the depreciation of any assets) the service in its area (being a cost determined taking into account or applying any principle or requirement prescribed by regulations) – noting that a Commission price determination will prevail to the extent of any inconsistency.

No.	Topic	Issue	Response
		<p>understanding that there is no commitment by the recycled water users to pay reasonable contributions to the operating costs on a user pays basis.</p> <p>Origin and Environmental Land Services submitted that the market serves to provide a sufficient constraint on the prices that can be charged (price of substitute energy sources and emerging technologies). Environmental Land Services submitted that the power of choice will force gas distributors and retailers into a constant drive to lower cost to serve and introduce innovation to compete against new disruptive technologies.</p>	<p>services match customer willingness to pay, and customers understand the pricing arrangements in place.</p>
13	<p>Flexibility to respond to customer issues</p> <p>(Responding to Question 1(b))</p>	<p>Onkaparinga Council submitted that the regulatory framework has not impacted on their customer relationships to date.</p> <p>Mid Murray Council submitted that the issues raised by customers can be addressed through the Local Government Act, so it is unclear that any relevant improvements can be made to the Commission's framework (this point also goes to the issue of regulatory duplication).</p> <p>District Council Lower Eyre Peninsula submitted that the regulatory framework has not resulted in any change in its flexibility to respond to customer issues.</p> <p>Origin submitted that existing regulatory arrangements are more than sufficient to support reticulated LPG consumers.</p> <p>Environmental Land Services submitted that the Commission's regulatory framework to date has been adequate to deal to customer issues.</p>	<p><u>Commission understanding of issue:</u></p> <p>On the basis of submissions received, the current regulatory framework does not appear to inhibit service provider's ability to respond to customer issues. But some submissions suggest there is duplication with the requirements of the Local Government Act.</p> <p><u>Response:</u></p> <p>The purpose of this Inquiry is to determine if better regulatory arrangements can be identified. This would include considering the extent to which duplication of requirements can be reduced.</p> <p>The Commission notes the Local Government Act does not apply to private service providers of small-scale networks. The Commission's regulatory framework has to cover all forms of ownership structures, be flexible enough to manage changes in ownership and provide transparency regarding the transfer of obligations if a local government owned small-scale network transfers to a private service provider. Duplication of obligations between the Local Government Act and the Commission's regulatory framework might be a consequence of this.</p>
14	New or emerging business models	<p>Mr Shipard submitted concern that a proposed new CWMS (Cowell) would make it unviable for a business to provide a local service maintaining the remaining aerobic wastewater treatment systems, notwithstanding that council had previously encouraged residents to install the AEROBIC wastewater treatment system.</p>	<p><u>Commission understanding of issue:</u></p> <p>No evidence was provided of specific new or emerging business models. However, submissions do suggest there is the potential</p>

No.	Topic	Issue	Response
	(Responding to Question 3(b))	Origin submitted that emerging businesses will be incentivised to assist customers with information, as such business models are likely to rely on long term and transparent relationships with their customers.	<p>for a new business model to disrupt the existing services received by customers.</p> <p><u>Response:</u></p> <p>The submissions emphasise the importance of good customer engagement when investing in and transitioning to new service delivery mechanisms, The customer base should understand the nature of the proposal and any proposed transition to new arrangements. While the service provider should understand whether the customer is willing to pay for service provision over and above the minimum necessary.</p>
<p><b>MARKET STRUCTURE AND OPERATION: CUSTOMER INFORMATION</b> – Of relevance to this Inquiry is the extent to which customers have the information they need and whether the current regulatory regime effectively addresses this.</p>			
15	<p>Where customers are not provided with choice, what information do they need to understand the service they receive?</p> <p>(Responding to Question 1(c))</p>	<p>Mid Murray Council submitted residents need to understand the ongoing costs of providing services and how the service provider formulates these costs – residents need to know what they are 'getting for their money'.</p> <p>Onkaparinga Council submitted that customers need to be advised:</p> <ul style="list-style-type: none"> <li>▶ that an alternative supply arrangement is not available and why this is the case</li> <li>▶ the constraints, challenges and costs of operating a decentralised system, and</li> <li>▶ any obligations the customer may have that contributes to the operation of the system they are part of.</li> </ul> <p>Mount Barker District Council submitted:</p> <ul style="list-style-type: none"> <li>▶ in most cases the end user will have little or no choice but to accept what a developer has negotiated with a service provider</li> <li>▶ it had investigated the provision of separate billing for wastewater services, but legislative constraints in the Local Government Act currently prevent this</li> <li>▶ choice for customers needs to be balanced against health and environmental impacts on others, and</li> <li>▶ centralised schemes (CWMS) arise out of past community concerns from the impact of failed individual systems.</li> </ul>	<p><u>Commission understanding of issue:</u></p> <p>The focus of local government submissions was on information provision explaining their position to customers in the context of the service provision. A customer of a local government service placed emphasis on the importance of customer consultation when changing service provision. By contrast the focus of privately owned energy service providers was on assuring customers of the competitiveness of the services provided given limited choice.</p> <p><u>Response:</u></p> <p>The submissions emphasise the importance of appropriate customer engagement. Not only does this relate to explaining why the service being provided represents good value for money on a day-to-day basis, it also relates to the need for engagement and consultation, from both a cost and approach perspective, at a time when investment is needed to sustain service provision.</p>

No.	Topic	Issue	Response
		<p>As outlined in item 14, Mr Shipard submitted that his council had not consulted well with ratepayers on a proposal to replace their existing (on-site) aerobic wastewater treatment systems with a new (network) CWMS. Mr Shipard further submitted, that on-going compliance for aerobic wastewater treatment systems is unclear and that the current regulatory framework does not provide satisfactory answers to his questions.</p> <p>Environmental Land Services submitted customers need to know that the energy they consume is cost competitive relative to other service providers of comparable networks and geography.</p>	
<p><b>SERVICE PROVIDER ENVIRONMENT AND LEGISLATIVE FRAMEWORK</b> – The role of the legislative environment with respect to differing ownership structures.</p>			
16	External controls on local government service providers	<p>District Council Lower Eyre Peninsula submitted that the Commission should be able to differentiate between local government and private small-scale service providers, simply because of the dynamic compliance environment that applies to local government through state and federal legislation and regulation. Local government should not be seen in the same vein as private companies or state government corporations that operate as commercial enterprises required to deliver a profit or dividend to their shareholders/owners.</p> <p>The Onkaparinga council submitted that the Commission should 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.</p> <p>Mount Barker District Council submitted (responding to Question 1(b)) that local government authorities have always been customer focused (irrespective of regulatory regimes) and have responded to customer issues. This is a necessity given their close relationship with the community and elected members who represent and advocate for the benefit of the community. Added to this, if councils do not respond adequately, they may also be subject to scrutiny from the Ombudsman, ICAC and other regulatory bodies such as the Commission. Apart from the above, councils also have a Code of Conduct for their employees.</p>	<p><u>Commission understanding of issue:</u></p> <p>Council submissions sought to distinguish government owned service providers from private sector. This based on the differing legislative and governance arrangements.</p> <p><u>Response:</u></p> <p>The Commission is not of the view that, in and of itself, differing ownership structures require a differing approach. Under the ESC Act the primary objective of the Commission is to protect consumers' long-term interests with respect to the price, quality and reliability of essential services. This objective does not differentiate between government and private sector service provider.</p>

No.	Topic	Issue	Response
<b>REGULATORY RESPONSE: PROMOTING COMPETITION – How can the regulatory environment promote competition in the small-scale network environment?</b>			
17	New or emerging business models  (Responding to Question 3(b))	<p>Mount Barker District Council submitted:</p> <ul style="list-style-type: none"> <li>▶ if the Commission is considering opening up “off-grid” options for water and wastewater, due consideration should be given to who is responsible for bearing the cost of environmental and public health monitoring and rectifying issues that may emanate</li> <li>▶ monitoring costs and potential legal cost are likely to be significant and these matters need to be investigated before any legislation/guidelines are passed, and</li> <li>▶ it would be unfair for local government entities to bear the cost.</li> </ul> <p>Urban Development Institute of Australia-South Australia submitted:</p> <ul style="list-style-type: none"> <li>▶ A regulatory environment that enables new entrants to provide for dynamic, flexible and nimble service models is important to the development industry.</li> <li>▶ Such an environment has considerable benefits to homebuyers and other beneficiaries of development products because it enables greater innovation and competition in the provision of infrastructure and services.</li> <li>▶ Opportunities to enable newer technical solutions should be encouraged (such as where possible promoting a ‘skinny grid’ where there is a minimal shared grid connection for back up purposes but the majority of energy is supplied locally).</li> <li>▶ Barriers to entry ought to be kept to a minimum to encourage new entrants and competition (for example, licencing fee, bank guarantees etc.).</li> </ul>	<p><u>Commission understanding of issue:</u></p> <p>Submissions appear to support a regulatory framework that encourages new service solutions, however, due consideration should be given to any additional associated oversight costs.</p> <p><u>Response:</u></p> <p>The Commission is seeking to identify a regulatory framework that promotes innovation and competition, where possible better than the existing framework. This is reflected in the Issues Paper questions, such as Question 3(a) which sought evidence of the current framework presenting obstacles for new entrants in offering new small-scale utility services (items 8-11).</p> <p>Further, the Commission is of the view that a regulatory framework that promotes innovation and competition within the diverse small-scale network environment has to be flexible, technologically neutral and take an evolutionary perspective, rather than a prescriptive perspective. The objective is to provide a regulatory response that flexes with a given small-scale network’s circumstances and the service provider’s behaviour with respect to meeting its customer’s needs.</p> <p>The Commission also considers that if effective and sustainable competition is viable within a given small-scale network, this represents the best outcome for customers.</p>
18	Retail competition	<p>Environmental Land Services submitted its business model could conceivably cater for multiple gas retailers if:</p> <ol style="list-style-type: none"> <li>1. Environmental Land Services provided the LPG into the system and charged the retailer for the gas, haulage and metering; or</li> <li>2. Natural Gas was connected to Environmental Land Services network and retailers could compete on the same basis as exists in metropolitan Adelaide.</li> </ol>	<p><u>Commission understanding of issue:</u></p> <p>It may be possible to introduce retailer competition for reticulated LPG.</p> <p><u>Response:</u></p> <p>As noted in item 17 above, the Commission considers that if effective and sustainable competition is viable within a given small-scale network, this represents the best outcome for</p>

No.	Topic	Issue	Response
		Environmental Land Services submitted there needs to be a minimum scale for effective retail competition and that threshold is in the order of 10,000+ customers.	customers. The regulatory framework should not seek to prevent such an outcome, unless it is necessary to do so for legislative reasons.  In this context, the Commission notes, the Australian Energy Market Commission ( <b>AEMC</b> ) is considering the feasibility of retail competition in the case of Standalone Power Systems. <sup>9</sup>
<b>REGULATORY RESPONSE: CONSULTATION &amp; ENGAGEMENT</b> - The role of consultation and engagement both as a means of reducing information asymmetry and understanding the price-service mix that the customers of given small-scale network want.			
19	Customer focus	<p>SA Water submitted:</p> <ul style="list-style-type: none"> <li>▶ The regulatory approach needs to develop an appropriate mechanism to ensure customers are being heard and all service providers are designing and driving their operations to provide the services their customers want and are willing to pay for.</li> <li>▶ If this is occurring, compliance with the NWI pricing principles should not be an issue for water.</li> <li>▶ This also resolves issues where service providers are potentially cross-subsidising their water and sewerage operations through other activities, and provides transparency between cost of the services and the price charged to the customer.</li> </ul> <p>SAFCA submitted:</p> <ul style="list-style-type: none"> <li>▶ Its belief that service improvements must always be balanced against costs and that any plans for new or maintenance projects must be clearly communicated to residents who ultimately bear the cost.</li> <li>▶ There was no evidence of service providers proactively engaging with sewerage customers and very little evidence of engagement with water customers regarding satisfaction levels – suggesting that service providers may not consider community and customer views within their decision making processes for service offerings.</li> </ul>	<p><u>Commission understanding of issue:</u></p> <p>The regulatory framework needs to ensure service providers engage with their customers, and customers are provided with the services they want and are willing to pay for.</p> <p>Small-scale network services are provided through a network to a relatively small number of localised customers. Some customer representative bodies support adopting a consumer engagement model for the next round of regulatory determinations. By contrast, one local government respondent considers its existing practices sufficient.</p> <p><u>Response:</u></p> <p>The Commission considers that customer engagement is a fundamental and integral responsibility of any network service provider. As such, it is considered a critical aspect of competent operation.</p> <p>Any explicit regulatory mechanisms developed should provide support to a service provider in meeting this responsibility. They should not transfer the responsibility to the regulator via the regulatory framework. An example is the development of the</p>

<sup>9</sup> AEMC, *Review of the Regulatory Frameworks for Stand-alone Power Systems – Priority 1*, Draft Report, December 2018, p. viii, available at <https://www.aemc.gov.au/market-reviews-advice/review-regulatory-frameworks-stand-alone-power-systems>.

No.	Topic	Issue	Response
		<p>▶ The next round of regulatory determinations for service providers should consider a consumer engagement model, with a similar approach utilised within the energy industry (where consumers are engaged in ongoing processes and supported with market focused education).</p> <p>SACOSS submitted support for SAFCA's recommendation for a consumer engagement model, in order to test the ongoing impact on customers of current regulatory arrangements and any future reforms.</p> <p>District Council Lower Eyre Peninsula submitted that local government is required to prepare draft Annual Business Plans and make them available for public comment. These plans are required to include information on all activities, including CWMS as relevant. These Plans are supported by the Strategic Plan and Long Term Financial Plan, with each review of the Strategic Plan incorporating public consultation.</p> <p>Mr Shipard submitted:</p> <p>▶ More customer engagement should be undertaken when deciding on whether or not to start a scheme (provide a new service), including a full cost-benefit analysis.</p> <p>▶ Communication and consultation is probably the most important tool for community understanding and acceptance of new systems.</p>	<p>consumer engagement model being adopted for the current SA Water determination.</p> <p>Further, given the diverse nature of small-scale operations in South Australia, it is unclear how a 'one-size-fits-all' approach to customer engagement can be developed. As such, the responsibility for how best to engage with its customer base lies with the service provider. Importantly, however, it is not the service provider that can unilaterally decide whether its approach to customer engagement regarding the small-scale network it operates meets the needs of its customer base. The service provider should seek out the views of its customers in this regard and adapt as needed.</p> <p>The Commission considers regular customer engagement provides small-scale service providers with an understanding of the service levels customers want and are willing to pay for going forward. Importantly, this may mean that repeating the same delivery mechanism and service portfolio through time may not meet customer expectations. A competent small-scale network service provider should be accounting for this in its plans for the network. In doing so, customers' understanding and acceptance of the approach adopted and the implications for prices is improved.</p>
20	Where customers are provided with choice, what information will they need to make informed decisions about new supply options?	<p>Onkaparinga Council submitted that customers would need the following information:</p> <p>▶ available volumes, supply risk/constraint, flow and pressure</p> <p>▶ price and billing arrangements, and</p> <p>▶ that as far as possible, the customer should understand their own requirements and the service provider should be able to provide corresponding information about the supply scenario.</p> <p>The Energy Markets and Programs Division of the Department of State Development (DSD) submitted that it is important that customers receive appropriate levels of</p>	<p><u>Commission understanding of issue:</u></p> <p>Customers are likely to seek a range of information, with submissions providing some examples of the type of information that might be useful to customers.</p> <p><u>Response:</u></p> <p>The Commission considers that these submissions reinforce the need for a small-scale service provider to effectively and consistently engage with their customers, in order to discover the information of most importance to them (see item 19).</p>

No.	Topic	Issue	Response
	(Responding to Question 3(c))	<p>information, whether taking supply from new systems or moving into established stand-alone systems.</p> <p>The Urban Development Institute of Australia-South Australia submitted the importance of consumers having confidence in the quality of infrastructure.</p>	
<b>REGULATORY RESPONSE: CUSTOMER PROTECTION</b> – The role of consumer protection in the Commission’s small-scale network regulatory framework.			
21	Access to independent dispute resolution	<p>EWOSA submitted:</p> <ul style="list-style-type: none"> <li>▶ Many of the protections afforded to customers of on-grid services should also be afforded to small-scale network customers, particularly where the benefits of doing so outweighs the costs – with such protections including standard contracts, minimum requirements regarding bills and restrictions on disconnection, as well as a performance monitoring regime.</li> <li>▶ It is preferable that all customers of an essential service have access to free, independent (external) dispute resolution, such as that provided by EWOSA.</li> <li>▶ However, EWOSA accepts that this can be too costly for retailers with a small number of customers, suggesting: <ul style="list-style-type: none"> <li>– 30 customers or above should join, and</li> <li>– also based on the service, that is, risk-based (for example, greater need in the case of drinking water than recycled water).</li> </ul> </li> </ul> <p>SACOSS submitted:</p> <ul style="list-style-type: none"> <li>▶ Customers of small-scale networks are at a significant disadvantage when compared to large scale service providers’ customers in terms of dispute resolution.</li> <li>▶ This issue makes it even more difficult to assess the level of customer satisfaction and for this reason, SACOSS encourages the Commission to consider to the fullest extent possible evidence of customer experience.</li> <li>▶ A recommendation that the Commission consider as a priority cost effective customer access to an external dispute resolution processes.</li> </ul>	<p><u>Commission understanding of issue:</u></p> <p>There is some stakeholder support for small-scale network customers having access to independent dispute resolution processes, noting that this may already be available to customers of local government service providers.</p> <p>Further, an observation was that many of the protections provided to customers of on-grid services may be applicable to small-scale network customers.</p> <p><u>Response:</u></p> <p>The Commission agrees that all small-scale network customers should be able to access independent dispute resolution procedures to the same extent, regardless of service provided or small-scale network service provider.</p>

No.	Topic	Issue	Response
		<ul style="list-style-type: none"> <li>▶ The majority of small-scale water and sewerage licensees are local councils that may be subject to internal and external dispute resolution processes under local government policy and regulations, and consequently SACOSS called on the Commission to consult with the LGA to ensure all cost effective and accessible avenues for dispute resolution are considered.</li> </ul> <p>DSD submitted that protections such as access to dispute resolution procedures was identified as important at a stakeholder forum on stand-alone electricity systems, held in September 2016.</p>	
22	Hardship	<p>The LGA submitted:</p> <ul style="list-style-type: none"> <li>▶ Councils are required to adopt the hardship policy published by the Minister for Communities and Social Inclusion (required under section 37 of the WI Act), which is separate to the council's rating policy<sup>10</sup> - the resulting duplication is inefficient.</li> <li>▶ Solutions to this duplication include investigating the possibility of a council's existing policy being sufficient for the purposes of the Act, or a council's existing policy being amended to include provisions relating to a retail service under the Act.</li> </ul> <p>District Council Lower Eyre Peninsula submitted that it had had hardship payment policies in place ahead of the WI Act regulatory framework. Further, no CWMS service had ever been disconnected as a result of overdue or outstanding payments.</p> <p>SAFCA submitted that survey responses indicated that:</p> <ul style="list-style-type: none"> <li>▶ 20% of water customers and 12% of sewerage customers reported having financial difficulty paying a bill <ul style="list-style-type: none"> <li>- of these, around 50% of water customers felt their service provider was helpful, while 80% of sewerage customers felt their service provider was helpful</li> <li>- the majority of customers (83% water and 79% sewerage) identified their payment difficulty as a temporary issue.</li> </ul> </li> </ul>	<p><u>Commission understanding of issue:</u></p> <p>There is stakeholder support for hardship provisions, given a sizeable group of customers face difficulty in paying their bills. However, councils are concerned that the Minister's hardship policy duplicates existing provisions adopted by local government.</p> <p><u>Response:</u></p> <p>Hardship provisions are considered to be a fundamental part of customer protections, particularly with respect to essential services. The same customer protections in this context should apply equally to all customers, regardless of whether the small-scale network specific to them is run by a private service provider or via a local government authority.</p> <p>As noted in item 13, if a small-scale network passes to private ownership from a local government authority, the obligations within the Local Government Act cease to apply. Further, the hardship policy within the Local Government Act relates to the payment of rates, while the WI Act relates specifically to an essential service.</p> <p>Notwithstanding, the Commission would welcome any submission from local government outlining specific proposals</p>

<sup>10</sup> Section 182 of the Local Government Act 1999 provides that, where a council is satisfied on the application of a ratepayer that payment of rates in accordance with the Local Government Act would cause hardship, the council may (a) postpone payments in whole or part or (b) remit the rates in whole or part.

No.	Topic	Issue	Response
		<p>SAFCA submitted a recommendation to build the capacity of service providers to further assist customers who are in financial difficulty. This includes educating service providers on the role of financial counsellors and developing a coordinated approach between service providers and organisations who offer financial counselling.</p> <p>DSD submitted that protections such as access to hardship schemes was identified as important at a stakeholder forum on stand-alone electricity systems, held in September 2016.</p>	<p>that would reduce any perceived duplication, while still retaining equivalent protections as envisaged by the WI Act.</p> <p>Further, the Commission would see it in the interest of service providers to be educated in the role of financial counsellors. However, it does not consider that this should be a regulatory obligation.</p>
23	Consumer protection regardless of scale	<p>Urban Development Institute of Australia-South Australia submitted:</p> <ul style="list-style-type: none"> <li>▶ Customers should have confidence that basic consumer protections will be in place across all scales (large and small).</li> <li>▶ There does not appear to be any compelling reason to differentiate consumer protections that might apply to the different scales of service provision or across the different services, with consistency assisting general consumer understanding of rights and protections.</li> </ul> <p>Urban Development Institute of Australia-South Australia further submitted that while it supports the need for clear up-front information and the protection of consumers, it would not like to see any impositions that add unnecessary costs to the provision of small-scale off-grid services as this may remove one of the few mechanisms available to developers to keep the costs of utilising monopolised service authorities in check.</p>	<p><u>Commission understanding of issue:</u></p> <p>Support for a consistent set of basic consumer protections, providing it does not lead to unnecessary costs.</p> <p><u>Response:</u></p> <p>For each small-scale network service a set of consumer protections exists. These, however, are not the same across services.</p> <p>It is possible that requiring all small-scale service providers to comply with the same, potentially more extensive, set of customer protections than exists, might impact on the operational costs of any given small-scale network. Whether the benefits of the customer protections offset any additional cost is a small-scale network specific question and will depend upon the customer valuations for each small-scale network. This relates to the importance of effective and consistent customer engagement when faced with a diverse set of small-scale networks, as discussed in items 19 and 20.</p>
<b>REGULATORY RESPONSE: RELIABILITY AND SERVICE QUALITY – How should performance standards be set?</b>			
24	Customer determined service levels	<p>DSD submitted that an advantage of small-scale networks is the potential for customers to determine their own levels of reliability traded off against price. There could be significant cost to those customers if settings (electricity) were aligned to the levels applicable to the NEM.</p>	<p><u>Commission understanding of issue:</u></p> <p>There is no commonality across the responses received. They range from ensuring all South Australian sewerage and water customer receive a minimum set service standard, to off-grid</p>

No.	Topic	Issue	Response
		<p>Urban Development Institute of Australia-South Australia submitted that the standards, level of service and requirements of small-scale systems should not necessarily match those of the larger network, as the risks may not be as relevant.</p> <p>SACOSS submitted that the Commission may wish to consider a set of <u>minimum service standards</u> to ensure all customers are guaranteed that essential needs are met by all South Australian sewerage and water service providers (see item 1).</p>	<p>electricity customers determining their own reliability levels and trading this off against price.</p> <p><u>Response:</u></p> <p>The Commission is of the view that expected service levels exist across small-scale networks. They are the service levels attained now. The implications of mandating minimum services demonstrably higher is much the same as mandating customer protections in a similar manner (see item 23): it emphasises the importance of customer engagement.</p> <p>Further, not all aspects of service standards are likely to be amenable to customer determination, in particular, aspects of the service that relate to health, safety and environmental requirements. However, service reliability and interruption levels are, to a greater or lesser extent, flexible. Given this, it is possible for price-service trade-offs to exist. However, these likely depend upon the technological capability of the specific small-scale network and the number of connections. These factors exhibit significant variance across small-scale networks.</p> <p>Ultimately, the capability to develop customer determined service levels is small-scale network specific and depends upon customer demand within that network. This again places emphasis on the role of customer engagement.</p> <p>As noted in item 19, a central requirement of competent operation is effective and consistent customer engagement.</p>
25	Service providers must comply with obligations set by a number of regulators	<p>Mid Murray Council submitted (responding to question 4(b)) the following obligations it must meet set by other regulators:</p> <ul style="list-style-type: none"> <li>▶ Local Government Act - Asset Management Plans to be in place which are used to determine the annual service charge and feed into the Long Term Financial Plan.</li> <li>▶ SA Health - an annual CWMS report on the failures and breakdowns of each CWMS. This also includes flow rates and water quality.</li> </ul>	<p><u>Commission understanding of issue:</u></p> <p>Mid Murray Council seeks to illustrate there are a number of regulatory requirements upon its CWMS activities.</p> <p><u>Response:</u></p> <p>The Commission notes the fact that there are a number of regulatory requirements in place across differing regulatory</p>

No.	Topic	Issue	Response
		<ul style="list-style-type: none"> <li>▶ SA Health - development of Risk Management Plans which outline how the council manages its CWMS to ensure water quality, reliability and maintenance.</li> <li>▶ SA Health - when a new CWMS is installed, generally councils are required to take over its management and operation (which is particularly applicable in the regional areas where SA Water is generally not present).</li> <li>▶ Environment Protection Authority - annual licensing and regular inspections of each site to ensure environmental compliance.</li> <li>▶ Office of Technical Regulator (OTR) – development of Safety Reliability Maintenance Technical Management Plans (SRMTMP) which describe how the council’s operations and maintenance employees ensure the safe and reliable operation of its collection networks, wastewater treatment facilities and recycled water use for surface irrigation of adjacent land.</li> </ul>	<p>bodies. It also acknowledges that new CWMS are generally handed over to councils.</p> <p>The Commission is of the view that these obligations relate to operating a safe and reliable service that meets minimum quality standards, both now and into the future. As noted in item 24, they set the baseline for the safety, health and environmental aspects of the service.</p>
<p><b>REGULATORY RESPONSE: PRICING</b> – The price of services need to reflect basic service requirements and service sustainability. They also need to consider what the customer is willing to pay.</p>			
26	Importance of price to customers	<p>Customers of minor and intermediate sized water and sewerage service providers surveyed by SAFCA rated reliability as most important, ahead of price.</p> <p>Origin submitted that it maintains records of its reticulated LPG customer’s accessing pricing information on its website, with the number of unique site visits being extremely low.</p>	<p><u>Commission understanding of issue:</u></p> <p>Based on the submissions provided, price ranks behind reliability for small-scale water and sewerage network customer and LPG customers.</p> <p><u>Response:</u></p> <p>The Commission considers that the relative importance of price compared to other service characteristics is likely to vary depending on the extent to which prices are subsidised, effective substitute products are available, changes in policy that have significant cost implications arise and what point the small-scale network has reached in its asset replacement/renewal cycle.</p> <p>Pricing can become particularly relevant when customers face what they perceive to be price shocks. Price shocks on small-scale networks are likely at times of significant infrastructure investment and the customer base has no alternative service supply options.</p>

No.	Topic	Issue	Response
			<p>Price shocks bring the price-service trade-off and customer satisfaction into much sharper focus. In the Commission's view a price shock reflects not just the magnitude of a price increase but the psychological reaction to it. This, again, relates to the importance of customer engagement in managing the pricing evolution of the service through time and seeking to mitigate price rises to the extent possible. The Commission considers this a characteristic of the competent operation.</p>
27	Pricing principles	<p>The LGA submitted:</p> <ul style="list-style-type: none"> <li>▶ Councils often state that meeting pricing principles in the price determination can be onerous.</li> <li>▶ Local Government Act (Section 155) is the legislative mechanism by which a council can charge a fee for a service, and this section stipulates that the cost to be recovered cannot exceed cost to the council of establishing, operating maintaining, improving and replacing the service. LGA would like to know if that provision satisfies the purposes of the pricing determination</li> <li>▶ It had developed a suite of papers and tools to assist councils in pricing their services to comply with the requirements of the Commission's pricing determination.</li> </ul> <p>Mount Barker District Council submitted:</p> <ul style="list-style-type: none"> <li>▶ The pricing structure should also cater for levels of service increases, driven by the community and regulators (such as the EPA) expecting higher levels of service, particularly in the wastewater area: <ul style="list-style-type: none"> <li>- for example, higher treatment and environmental standards for effluent discharges etc.</li> </ul> </li> <li>▶ Currently the costs associated with these 'upgrades' (as opposed to replacing the asset, like-with-like) can only be included if there is a separate policy: <ul style="list-style-type: none"> <li>- this should not be the case, and</li> <li>- it should be part of setting the long-term price path, with guidelines amended to reflect this requirement.</li> </ul> </li> </ul>	<p><u>Commission understanding of issue:</u></p> <p>Councils believe the Commission's water and sewerage price determination to be onerous and duplicate relevant provisions of the Local Government Act.</p> <p>One Council submitted that pricing needs to be able to respond to changes in an externally set service standard (for example, increase in environmental standards).</p> <p><u>Response:</u></p> <p>The Commission acknowledges that the initial development and setting up of price determinations requires investment. The Commission also notes that no evidence has been provided demonstrating that the price determination is onerous or that the information and process developed has not led to a greater understanding of how these schemes are evolving and the associated risks. The Commission would argue the price determination, to date, has developed the type of baseline information that would underpin competent operation.</p> <p>The Commission's understanding is that Section 155 of the Local Government Act states that a Commission price determination, if implemented, takes precedence over the other requirements of Section 155 of the Local Government Act, to the extent of any inconsistency. Moreover, as noted previously (items 13 and 22), the Local Government Act is not ownership neutral. In this context, the Commission would argue the price determination builds upon Section 155 of the Local Government Act, providing a</p>

No.	Topic	Issue	Response
			<p>richer picture of essential service provision for all relevant stakeholders, while also ensuring consistency of treatment across private and local government ownership structures.</p> <p>The price determination can accommodate increases in service levels, as such costs would become part of the cost recovery process. The price determination, however, does not and should not be a tool to legitimise such costs from the perspective of the customer base. The Commission considers it the role of the small-scale network service provider to engage with its customers to ensure, at a minimum, sufficient understanding of the need for any cost increases. This reinforces the role of customer engagement.</p> <p>That being said, the Commission also acknowledges that how the price determination is implemented can and should evolve. In particular, the extent to which small-scale service providers can be trusted to self-regulate, thereby providing greater flexibility. Further, if it is apparent that the strategic benefits of the information provided through the price determination process are embedded in business practices for a given small-scale service provider, the price determination obligations on that service provider might cease.</p>
28	<p>Ability for service providers to set prices to recover long-term efficient costs</p> <p>(Responding to Question 2(a))</p>	<p>Mid Murray Council submitted:</p> <ul style="list-style-type: none"> <li>▶ Commission’s approach to pricing needs to reflect that the Local Government Act already has strict financial requirements in place, including the development of Asset Management Plans and Long Term Financial Reports for all infrastructure (responding to Question 4(b)).</li> <li>▶ Residents are concerned about whole of life cost replacement - why should people that are using it now, pay for something that they may not benefit from later on (responding to Question 1(a))</li> <li>▶ Pricing to a large extent will fall out of the council’s long term CWMS asset management and financial plan, with prices varying significantly according to the economies of scale of the various CWMS, lifecycle and quality of system.</li> </ul>	<p><u>Commission understanding of issue:</u></p> <p>Stakeholders outlined various issues that require consideration in the context of setting prices to recover long-term efficient costs. These ranged from the implications of competition, to the specifics of pricing structures, the potential role of subsidies, the relationship between whole life costing and inter-generation equity, the need for transitional arrangements, the role of the Local Government Act, network degradation and potential price shocks, and the significance of scale.</p> <p>Based on the diverse range of issues cited, the Commission’s understanding is that small-scale service providers have to consider a wide range of factors. Network scale being a particular</p>

No.	Topic	Issue	Response
		<p>Mount Barker District Council submitted that the competitive nature of the waste water industry makes it difficult to establish long term pricing that encourages sustainable growth of wastewater systems with varying requirements for treatment.</p> <p>Onkaparinga Council submitted:</p> <ul style="list-style-type: none"> <li>▶ Concern with implementation of full cost recovery pricing, being particularly an issue for alternative water supply (primarily based around stormwater harvesting), which was developed around an environmental (that is, water security and reduced reliance on the River Murray) rather than commercial strategy.</li> <li>▶ Due to their small size, such operations may never achieve the economies of scale required to be considered competitive, with the risk that enforced full cost recovery may force such operations into closure.</li> <li>▶ The Commission should investigate the transitional arrangements realistically required by water small-scale network service providers to adopt full cost recovery pricing, and that the focus should be on long term asset management.</li> <li>▶ The Commission’s light handed price monitoring regime has merit and should be continued for the next regulatory period.</li> <li>▶ 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.</li> <li>▶ Consideration should be given to allowing small entities (of a size to be defined) to receive an income subsidy to allow the business to operate sustainably but not price itself out of the market.</li> <li>▶ The Commission should consider the proposition that the local government pricing setting and capital recovery decision making context is unique, with customers engaging in the process through elected representatives, with a transparent decision making process.</li> </ul> <p>District Council Lower Eyre Peninsula submitted that it faced no difficulties.</p> <p>SA Water submitted that the licensing regime has a key role to play in ensuring a service provider is appropriately resourced and has appropriate strategies to maintain sustainable supplies to its customers over the longer term. This ensures that even if a service provider exits the market, customers do not experience the price shock of another utility taking over the provision of those services and having to</p>	<p>constraint on the ability to set prices at a level to recover long-term efficient costs.</p> <p><u>Response:</u></p> <p>The Commission acknowledges that small-scale network service providers have factors they need to consider and balance in transitioning towards pricing policies that cover long-term efficient costs. The Commission appreciates that this might be challenging, but is of the view that it is the responsibility of the small-scale network service provider to manage.</p> <p>The Commission acknowledges that scale might present particular challenges for specific networks – particularly networks with very few connections. However, this needs to be balanced against the fact that long-term efficient cost is a dynamic concept.</p> <p>The concept of long-term efficient cost relates to the role of innovation and technological change. In particular, that the approach to service delivery can change, as can certain service characteristics. Long term efficient cost does not represent a simple projection of the existing cost base based on current service delivery mechanisms and service product characteristics.</p> <p>The Commission considers this reflects the importance of regular customer engagement that seeks to identify alternative approaches that can assist in reducing long term efficient costs where scale factors are a particular challenge. While this process may not eradicate particular problems, it can assist in mitigating them and managing customer expectations.</p>

No.	Topic	Issue	Response
		<p>address previous under investment, or short term planning, in the infrastructure required to provide those services.</p> <p>Mr Shipard submitted:</p> <ul style="list-style-type: none"> <li>▶ Recycled sewage water should be supplied on a user-pay (beneficiary pays) basis, at the current recycled water value, to replace current potable water uses where recycled water is suitable for use.</li> <li>▶ A guaranteed water supply to the (aerobic wastewater treatment systems) customer, with no introduction of regional pricing, would be essential if customers are forced to accept the new CWMS as presented (in which residential customers lose a supply of 'free' recycled water from their on-site aerobic wastewater treatment systems to the benefit of other groups, such as sporting clubs).</li> <li>▶ His Council would set sewage rates to cover all operating and capital costs for the proposed CWMS and reimburse the scheme for recycled water use.</li> <li>▶ Concern over cost uncertainty of the CWMS, which raised a risk that Council would have difficulty in '<i>... maintaining the compliance of this new scheme within the regulatory framework any better than previously</i>' (responding to Question 4(a)).</li> </ul> <p>Origin submitted:</p> <ul style="list-style-type: none"> <li>▶ There are no material barriers to recovering long-term efficient costs of reticulated LPG networks; however the current regulatory regime contributes to the cost of supplying Origin customers in South Australia (responding to Question 2(a)).</li> <li>▶ It does not believe over-recovery is a factor for reticulated LPG - given the availability of close substitutes (responding to Question 2(b)).</li> <li>▶ Reticulated LPG is not price regulated and this should remain the case.</li> </ul> <p>Environmental Land Services submitted that its Mount Barker (standalone) network requires a certain scale (number of connections) to be commercially sustainable. That the issuing of a licence to another service provider in the geographic area would adversely impact on Environmental Land Services's investment and add an unnecessary layer of cost to customers.</p>	

No.	Topic	Issue	Response
<b>REGULATORY RESPONSE: MONITORING &amp; REPORTING</b> – A risk-based approach should ensure monitoring and reporting is limited to that necessary to meet the regulatory objectives.			
29	Excessive Reporting requirements	<p>The LGA submitted that the current approach to reporting is excessive and inefficient. There is also uncertainty in how this data is used by the respective regulators and in turn the value of providing it in the first place. Going forward, the LGA is keen to ensure that reporting is driven by clear, agreed outcomes and objectives, and that the data is of a suitable quality.</p> <p>Mid Murray Council submitted concern that the Commission's monitoring requirements appear to be pitched at a large scale service provider and not their own small operation – it does not necessarily reflect the local government operating environment and legislative framework.</p> <p>District Council Lower Eyre Peninsula submitted:</p> <ul style="list-style-type: none"> <li>▶ the Commission should consult with local government to establish reporting requirements that are an adjunct to local government current systems, and</li> <li>▶ further, the inherent issue in the WI Act and Regulations is the presumption that councils should be treated as though they exist only to provide a single, isolated service.</li> </ul>	<p><u>Commission understanding of issue:</u></p> <p>All responses received reflect the local government authority perspective. They sought a clearly defined and targeted monitoring regime that has regard to existing reporting requirements outside the regime.</p> <p><u>Response:</u></p> <p>The Commission supports the need for its reporting requirements to meet a specified need, in the context of the delivery of essential services.</p>
30	Risk approach	<p>SACOSS submitted it understood that the monitoring, reporting and enforcement applied to small-scale service providers may be different to that applied to large scale service providers dependent on risk, proportionality and cost versus benefit. However, it is essential that high risk service providers are identified and appropriately monitored.</p> <p>Onkaparinga Council submitted that the Commission should consider applying the current breakdown of the water retail market licence categories (that is, Large, Intermediate and Small retailers) to greater effect by limiting the regulatory impact on the smaller market participants.</p>	<p><u>Commission understanding of issue:</u></p> <p>From a customer perspective, it is important that high risk service providers are identified and appropriately monitored.</p> <p>From the perspective of reducing regulatory impact, one local government authority suggested regulation of water and wastewater schemes should be targeted based on size.</p> <p><u>Response:</u></p> <p>The Commission agrees that high risk service providers should be identified and subject to credible remedial action. However, the Commission does not agree that, in the context of small-scale service providers, number of connections should be used to graduate the impact of the regulatory regime. There is no immediate reason to suggest this would, in and of itself, improve</p>

No.	Topic	Issue	Response
			customer outcomes or reduce the risk of poor customer outcomes (see item 2).
31	Indicators for vulnerable customers	SACOSS submitted that the Commission should consider a range of monitoring indicators for vulnerable customers, and refers the Commission to the indicators that the Australian Energy Regulator uses, including payment plans and successful graduation from hardship plans	<p><u>Commission understanding of issue:</u></p> <p>A range of indicators is sought to monitor outcomes for vulnerable customers.</p> <p><u>Response:</u></p> <p>The merits of specific indicators may be considered in any subsequent detailed regulatory instrument review undertaken. The Commission is of the view that the extent of any such review is dependent on the outcome of the consultation process with respect to the framework and approach paper.</p> <p>In this context, it is noted that EWOSA reports on credit management and financial hardship cases it deals with. The Commission should be able to rely on such data, rather than seek service providers to report more data.<sup>11</sup></p>
32	Indicators to monitor customer confidence, engagement and satisfaction  (Responding to Question 1(d))	<p>Onkaparinga Council submitted the following indicators for consideration:</p> <ul style="list-style-type: none"> <li>▶ service reliability benchmarked against customer requirements/expectations</li> <li>▶ response to breakdowns and issues</li> <li>▶ customer communications – timely, complete and effective, and</li> <li>▶ complaints received.</li> </ul> <p>District Council Lower Eyre Peninsula submitted that its current annual planning process incorporated the most appropriate indicators – anything more resulted in unnecessary cost to the customer.</p> <p>Mount Barker District Council submitted that customer complaint reporting (already being provided) and Ombudsman reports may provide information. That its annual business planning process requires community consultation (under Local Government Act) and also encourages customers to provide feedback.</p>	<p><u>Commission understanding of issue:</u></p> <p>Various indicators are a useful proxy of customer satisfaction and confidence. Local government noted processes already existed to promote customer engagement. While there was also the view that SRMTMP compliance should provide appropriate assurance to customers on service reliability.</p> <p><u>Response:</u></p> <p>The Commission considers that data on complaints represents a useful partial, but imperfect, indicator of customer satisfaction and confidence.</p> <p>The Commission is also of the view that the diversity across small-scale networks in South Australia means that there is</p>

<sup>11</sup> EWOSA, *Annual Report 2017-18*, p.16, available at <https://ewosa.com.au/assets/volumes/general-downloads/annual-reports/EWOSA-Annual-Report-2017-2018.pdf>. The categories of credit management complaints are disconnection (including imminent), credit reference, financial hardship and liability.

No.	Topic	Issue	Response
		<p>Mr Shipard submitted that, in relation to the specific incidence raised in his submission (proposed aerobic wastewater treatment systems to CWMS), community confidence has been destroyed. That community attitude is a good guide, but silence does not mean acceptance.</p> <p>Environmental Land Services submitted that its compliance with its SRMTMP would provide appropriate assurance to customers of safe and reliable delivery of energy to their homes.</p>	<p>unlikely to be a 'one size fits all' indicator that can gauge the effectiveness of customer engagement.</p> <p>Compliance with SRMTMPs should also provide small-scale network customers with some assurance.</p>
<b>REGULATORY RESPONSE: COMPLIANCE AND REGULATORY BURDEN - Approach to compliance with regulatory obligations</b>			
33	Duplication of compliance obligations and reporting	<p>District Council Lower Eyre Peninsula submitted that one of the many challenges faced by local government is dealing with compliance requirements of a multitude of state and federal government agencies to ensure that grants, rates and fees/charges income and revenue are spent appropriately. Individually, the respective agency's requirements are both valid and reasonable, but collectively they overlap at best and duplicate at worst. That it would be more efficient to have reporting based on existing local government financial compliance processes.</p> <p>Mid Murray Council submitted that local government already has a significant compliance regime. There is a duplication of obligations that are considered onerous and unnecessary – Local Government Act (financial), Environmental Protection Authority (licensing) and SA Health (CWMS Annual Report). Mid Murray Council further submitted that:</p> <ul style="list-style-type: none"> <li>▶ CWMS is only a minor element of their core business, and</li> <li>▶ the issues raised by customers can be dealt with through the Local Government Act, so it is unclear to Council whether improvements can be made to the Commission's regulatory framework.</li> </ul> <p>Mount Barker District Council submitted that there needs to be better coordination between regulators to ensure that licensees deliver on their commitments.</p> <p>Without providing any specific detail, Onkaparinga Council submitted that regulatory overlap does occur periodically across its operations.</p> <p>Mr Shipard submitted that despite the various regulations appearing to fit together well, in practice an inefficient water system can still occur.</p>	<p><u>Commission understanding of issue:</u></p> <p>Local government faces duplication in reporting requirements and is already subjected to a significant compliance regime (that is, outside the one administered by the Commission).</p> <p>The Commission's regulatory framework targets only a small portion of the total services councils provide, with some regulatory overlap as a consequence. Other submitters did not see duplication as a big issue.</p> <p>There is some work occurring at the national level concerning off-grid electricity services that the Commission needs to have regard to.</p> <p><u>Response:</u></p> <p>The Commission acknowledges that duplication, where it is demonstrated to have a material cost/resource implication, should be avoided. But if providing the same or similar information to a number parties does not have such a cost/resource implication, it is not clear why this is onerous. For example, it might be the case that the marginal cost of providing the same or similar information to various parties is minimal.</p> <p>The Commission would welcome the opportunity to discuss this issue with stakeholders. It also encourages evidence based</p>

No.	Topic	Issue	Response
		<p>Environmental Land Services submitted (responding to Question 4(b)) that it responds to the Commission on licensing matters and the OTR on technical and operating matters, and that these regulators only overlap when preparing its annual submission.</p> <p>Origin (responding to Question 4(b)) submitted:</p> <ul style="list-style-type: none"> <li>▶ it is unaware of regulatory overlap or gaps that apply to reticulated LPG, and</li> <li>▶ with respect to emerging energy supply models, Origin strongly supports national oversight (where necessary) and harmonisation of arrangements across jurisdictions.</li> </ul> <p>DSD submitted:</p> <ul style="list-style-type: none"> <li>▶ COAG Energy Council has a work program to consider the policy and regulatory response to addressing key issues in the electricity market relating to new technology, innovation and market change</li> <li>▶ establishing an appropriate regulatory framework for stand-alone energy systems is considered a key work stream in this program, and</li> <li>▶ general stand-alone energy systems are currently not captured under the national frameworks, but these types of systems may become more prevalent in the future.</li> </ul>	<p>submissions to this consultation, identifying the nature of the duplication present, and the costs associated with this.</p> <p>Commission staff will also liaise with agencies, such as the AEMC, that are reviewing regulation in this area.</p>
34	<p>Service provider compliance costs</p> <p>(Responding to Question 4(a))</p>	<p>Mid Murray Council submitted the following examples of compliance costs (both financial and resourcing), the costs of which are ultimately passed onto the ratepayer:</p> <ul style="list-style-type: none"> <li>▶ annual licence fee paid to the Commission</li> <li>▶ cumbersome reporting that is completed annually in November for both financial and operational reporting</li> <li>▶ development of guidelines and policy, which have previously been required as part of the Local Government Act, and</li> <li>▶ maintenance of the website and the posting of the fees annually.</li> </ul> <p>District Council Lower Eyre Peninsula submitted that the current annual cost estimates of complying with regulatory obligations is around 40 hours for Commission requirements, 100 hours covering all obligations at a total cost of \$30,000.</p>	<p><u>Commission understanding of issue:</u></p> <p>A number of stakeholders raised concern over the size of regulatory costs, with only one submission able to quantify these costs.</p> <p>One service provider suggested that the current regulatory framework does not reinforce the service provider's dealings with its customers.</p> <p><u>Response:</u></p> <p>The Commission refers to its response to item 33.</p> <p>Further, the Commission is of the view that it is the responsibility of the small-scale network service provider to seek to meet its customers' needs and operate competently in doing so.</p>

No.	Topic	Issue	Response
		<p>Onkaparinga Council (responding to Question 4(d)) submitted that the costs were significant, but should decrease as full compliance was reached.</p> <p>Mount Barker District Council submitted that regulatory costs are substantial and increasing, although it has not quantified them.</p> <p>Mid Murray Council submitted that it is appropriate to review the requirements faced by local government, given local government is quite heavily regulated already (through regulation imposed outside the Commission's framework).</p> <p>Origin submitted that it is unable to provide an estimate of the compliance cost, but the South Australian requirements come at significantly higher compliance costs relative to comparable jurisdictions (for example Queensland, where Origin supplies a much larger customer base via reticulated LPG) (see item 38). Further, the:</p> <ul style="list-style-type: none"> <li>▶ Current regulatory framework does not add to Origin's ability to respond to concerns raised by consumers.</li> <li>▶ Current reporting framework is a compliance exercise that is generally unrelated to our day to day dealings with customers.</li> <li>▶ Inquiry should look at opportunities to reduce the regulatory burden on service providers, given the cost of compliance and the availability of alternative sources of supply.</li> </ul>	<p>The regulatory framework defines a minimum threshold of expectation in this regard, with compliance and reporting a tool to provide assurance such standards are being met. If meeting the minimum standards represents a reasonable balance between protecting customers' interests and the costs of service provision, it is not clear that the costs associated with compliance should be characterised as regulatory burden.</p>
<p><b>REGULATORY RESPONSE: GAPS IN REGULATION</b> – There is a risk that the regulatory framework fails to address an important issue.</p>			
35	<p>Areas where no regulator is dealing with a matter</p> <p>(Responding to Question 4(c))</p>	<p>Mount Barker District Council submitted its belief that improvements can be made to the current regulatory system to better protect the interests of customers. It cited an example of a non-potable water service being passed onto an Association by a developer, with the Association then wishing to pass it on to some other service provider, following concerns it had with long-term management of the system. It goes to the question of having a regulatory regime that adequately addresses the long-term viability or technical capability.</p> <p>The following submitted that there were no gaps:</p> <ul style="list-style-type: none"> <li>▶ Mid Murray Council</li> <li>▶ District Council Lower Eyre Peninsula</li> <li>▶ Environmental Land Services</li> </ul>	<p><u>Commission understanding of issue:</u></p> <p>The regulatory framework needs to address long-term viability.</p> <p><u>Response:</u></p> <p>As noted in the response to item 25, it is important that the regulatory obligations promote a safe and reliable service that meets minimum quality standards, both now and into the future. This reflects some of the characteristics of a competent operation. This should make it more likely that there is a service provider willing to provide the service, without risk of bill shock (see item 28).</p>

No.	Topic	Issue	Response
<b>REGULATORY RESPONSE: RISKS</b> – An assessment of risks is important in developing the regulatory framework and for its on-going administration.			
36	Emerging risks that need to be addressed  (Responding to Question 4(d))	<p>Onkaparinga Council submitted that a requirement for small water entities to apply a full cost recovery framework risked the competitiveness of these entities, with the application of a return on asset requirement being a key pressure (see item 28). The Council also submitted:</p> <ul style="list-style-type: none"> <li>▶ for smaller service providers, water retail is a challenging environment, and</li> <li>▶ wherever possible, it would encourage a practical regulatory approach (in recognition that this is a new and emerging area of the economy) and on-going discussion regarding the best way to encourage market participation.</li> </ul> <p>District Council Lower Eyre Peninsula submitted the potential risk for them of regulators increasing their individual reporting and management requirements of service providers, resulting in a collective disproportionate compliance regime. Raising concern that the fact that the Issues Paper was not co-authored by other agencies meant that regulators have yet to coordinate their approaches.</p> <p>EWOSA submitted:</p> <ul style="list-style-type: none"> <li>▶ EWOSA was aware that new products, technologies and business models are entering small-scale network markets, particularly for electricity, and generally believes customer protections should not be diluted as a result.</li> <li>▶ It is also important that regulatory arrangements do not discourage the development of such products, technologies and business models.</li> <li>▶</li> </ul>	<p><u>Commission understanding of issue:</u> Examples of emerging risks include:</p> <ul style="list-style-type: none"> <li>▶ small service providers in an emerging area (for example, recycled water) may find it hard to fully comply with all aspects of a regulatory framework (for example, full cost recovery)</li> <li>▶ increasing regulatory requirements from each regulator can result in a collective disproportionate cost impact, and</li> <li>▶ new products, technologies and business models may not be captured under the existing framework, risking dilution of customer protections, but it is also important that the regulatory framework not stifle innovation.</li> </ul> <p><u>Response:</u> The regulatory framework should not result in the regulator setting itself up to be managing the operation, but rather support a competent operator. This may result in tension between ensuring a sustainable price in the short term, and accommodating a normal business response, which may be to price low initially in order to grow a market.</p> <p>The Commission undertakes to liaise with other regulators in an effort to minimise duplication.</p> <p>Consistent with the Terms of Reference, this Inquiry will seek to identify an appropriate regulatory framework that will be relevant in the context of new participants, business models and/or technologies.</p>
37	Differing levels of risk	<p>Mount Barker District Council submitted that a failure of an off-grid energy service to an individual will only impact that individual customer, whereas a failure of an off-grid solution to wastewater is likely to impact surrounding neighbours and the broader environment.</p>	<p><u>Commission understanding of issue:</u> There are likely to be differing levels of risk associated with each type of small-scale network service.</p> <p><u>Response:</u></p>

No.	Topic	Issue	Response
			The Commission is applying a risk-based regulatory approach which seeks to identify individual risks and respond accordingly.
<b>REGULATORY RESPONSE: REGULATORY FRAMEWORK COMPARISONS</b> – Investigating regulatory frameworks operating in other jurisdictions can identify useful alternatives to consider, but it is important to be cognisant of the relevant legal and cultural context operating in those jurisdictions.			
38	Review of jurisdictional schemes	Origin submitted that the regulatory framework was more light-handed in Queensland. That the Queensland reticulated LPG network regulation focuses on safety performance and compliance with technical standards, with the Australian Consumer Law providing customer protections (as it would for other similar product and service markets). Origin would encourage the Commission to consider a move to similar light-handed regulation for reticulated LPG, given the availability of substitutes to existing supply arrangements.	<p><u>Commission understanding of issue:</u> Suggested that the Queensland regulatory framework for reticulated LPG is more light-handed and fit for purpose.</p> <p><u>Response:</u> This Inquiry will review regulatory schemes applying in other Australian jurisdictions.</p>
<b>OTHER</b> – Issues raised in submissions not addressed above, some of which may not be of direct relevance to this Inquiry.			
39	Unlicensed service providers	Mid Murray Council submitted (Responding to Question 5) a concern with the lack of compliance undertaken by the Commission on companies that are charging a service fee yet are not registered with the Commission. The Council submits that if the Commission is not willing to take action on businesses that are not licensed then why should registration occur?	<p><u>Commission understanding of issue:</u> Concern expressed that some service providers go undetected by the Commission and operate unlicensed.</p> <p><u>Response:</u> This goes to the credibility of a regulatory framework and any revised framework will need to address this issue.</p> <p>The Commission is interested in stakeholders' views as to how best to identify unlicensed service providers, which may include measures such as:</p> <ul style="list-style-type: none"> <li>▶ encouraging customers to check on the Commission website whether their service provider is licensed, and</li> <li>▶ providing a confidential means for people to advise the Commission when they see unlicensed service providers.</li> </ul>
40	Service provider and retailer of last resort	Mount Barker District Council submitted that matters such as who will be the Operator of the Last Resort (OoLR) and the Retailer of the Last Resort (RoLR) need to be addressed. This also includes how the OoLR & RoLR will be funded when it takes over these assets (additional upgrades, connection costs etc).	<p><u>Commission understanding of issue:</u> Who will be the service provider and retailer of last resort, and how funded, needs to be addressed.</p>

No.	Topic	Issue	Response
			<p><u>Response:</u></p> <p>In the case of a water entity, sections 38 and 39 of the WI Act deal with the Commission's powers to take over operations.</p> <p>While procedures for operators and retailers of last resort must be addressed, the objective for this Inquiry is to develop a regulatory framework that promotes the competent operator. The extent to which a service provider is providing a service the customer requires at a sustainable price that the customer is willing to pay, should limit the need to appoint an alternative service provider.</p>
41	Concessions	SAFCA submitted that SA Water customers can apply to the Department for Communities and Social Inclusion for the [State Government] bill concession, which is then applied to future SA Water accounts. A similar opportunity exists for customers of councils. However, customers of private small and intermediate service providers must first pay the account, then apply for the concession. This is taking some 3 – 4 months to have the concession amount returned. SAFCA submitted that there should be consideration of private service providers being able to apply the concession and bill the customer for the remainder.	<p><u>Commission understanding of issue:</u></p> <p>Timeliness of customer access to water bill concessions varies according to whether the service provider is government or private sector.</p> <p><u>Response:</u></p> <p>Although this issue is outside this Inquiry's Terms of Reference, it will be brought to the attention of policy makers.</p>
42	Third Party bulk water pricing	<p>Urban Development Institute of Australia-South Australia submitted:</p> <ul style="list-style-type: none"> <li>▶ The reality of the pricing by the incumbent of bulk water delivered to a particular point does not allow for real competition in the market for water supply services, which is in part linked to the third party access regime, but is also a factor of the way in which the pricing of the delivery of water is set.</li> <li>▶ There is almost certainly room for a competitor to obtain water rights at competitive rates on the open water market and provided that the delivery charges were set at a reasonable rate then the delivery of water to householders could be subject to more open competition.</li> <li>▶ Again the complex issue of a proper regime for the pricing of delivery services is beyond scope of this Inquiry, warranting further considerable investigation.</li> </ul>	<p><u>Commission understanding of issue:</u></p> <p>Raising issue of third party access to water.</p> <p><u>Response:</u></p> <p>This topic is out of scope for this inquiry (as the submitter acknowledges), but the Commission refer readers to its 2019 review of the water third party access regime.<sup>12</sup></p>

<sup>12</sup> Available at <https://www.escosa.sa.gov.au/projects-and-publications/projects/water/2019-review-of-the-water-third-party-access-regime/sa-water-third-party-access-regime-review-2019>

No.	Topic	Issue	Response
43	Sewerage Infrastructure – regulator codes	<p>Urban Development Institute of Australia-South Australia submitted that sewerage infrastructure assessments tend to be based on the Water Services Association of Australia code and that the degree of reliance on this code for small-scale schemes by the OTR and SA Health has the following adverse impacts:</p> <ul style="list-style-type: none"> <li>▶ Firstly, the code is relatively outdated. Reliance on an outdated code means that new design and engineering solutions are impeded from adoption leading to greater cost and lower efficiency and in some instances reduced environmental performance in sewerage infrastructure.</li> <li>▶ Secondly the code is skewed towards larger scale sewerage infrastructure schemes and is less suited to smaller scale systems. In effect this over-engineering increases cost to service providers and consumers.</li> </ul>	<p><u>Commission understanding of issue:</u> Adherence to industry codes risks restricting innovation and increasing costs.</p> <p><u>Response:</u> It is incumbent on the relevant regulators to ensure their actions do not lead to unnecessary costs. However, this is not an area that can be addressed by this Inquiry, other than to promote greater communication and engagement between all the relevant regulators to achieve a more efficient outcome.</p>
44	Reason for being in the market	<p>District Council Lower Eyre Peninsula submitted that the underlying reason local government is providing CWMS services results from the lack of interest of state government agencies (such as SA Water) and that it is not a core function of local government. It further submitted that:</p> <p>a) Should SA Water approach the local government industry with a proposal to take over the CWMS infrastructure and service provision in rural South Australia it would be welcomed, subject to its ratepayers and residents being offered the same or better service at the same or lower cost.</p> <p>b) Should a private service provider make the same approach, then the difficulty would be in addressing the State Government’s legislative requirements (Local Government Act 1999 and Regulations). However if the same scenario (same or better service at the same or lower cost) was on offer then those legislative requirements could be resolved at the State Government level in concert with local government.</p> <p>c) Why should local government, in the circumstances that exist currently, be required to actively encourage or at the very least not inhibit free market opportunities?</p>	<p><u>Commission understanding of issue:</u> The District Council of Lower Eyre Peninsula is a reluctant party to the provision of CWMS services.</p> <p><u>Response:</u> This issue is outside this Inquiry’s Terms of Reference, but will be brought to the attention of policy makers. This Inquiry seeks to establish an efficient regulatory framework that governs the activities of whichever service provider is responsible for providing the service.</p>



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