

2016-17 Annual Report



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This Annual Report is submitted to the Treasurer, the Hon T Koutsantonis MP, in accordance with section 39 of the Essential Services Commission Act 2002. This is the fifteenth Annual Report of the Essential Services Commission, which was established in September 2002.

Date presented to Minister: 29 September 2017.

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Table of Contents

Section A: Reporting pursuant to the Public Sector Act 2009, the Public Sector Regulations 2010 and the Public Finance and Audit Act 1987 1

- Commission objective and purpose 1
- Advisory functions..... 1
- Regulatory functions..... 1
- Legislation administered by the Commission..... 2
- Key strategies and Commission goals..... 3
- Organisation of the Commission..... 3
- Commission’s performance management and development system..... 4
- Work health, safety and rehabilitation programs of the Commission and their effectiveness 4
- Fraud detected in the Commission..... 5
- Strategies implemented to control and prevent fraud 5
- Whistle-blowers’ disclosure 5
- Executive employment in the Commission 5
- Consultants..... 6
- Financial performance of the Commission 7
- Other financial information 7
- Consultation and stakeholder engagement 8
- Inquiries and advice 9
- Regulatory..... 11
- Water 11
- Energy 14
- Ports 19

Section B: Reporting pursuant to other acts or regulation 20

- Water third party access regime 20
- Intrastate Rail 21
- Tarcoola–Darwin Railway..... 23

Appendix 1: Performance against Performance Plan 2016-17 25

Appendix 2: Audited financial statements 2016-17 28

Section A: Reporting pursuant to the Public Sector Act 2009, the Public Sector Regulations 2010 and the Public Finance and Audit Act 1987

Commission objective and purpose

The Essential Services Commission (**Commission**) is a statutory authority established as an independent economic regulator and advisory body under the Essential Services Commission Act 2002 (**ESC Act**).

The Commission has economic regulatory responsibility in the water, sewerage, electricity, gas, rail and port services sectors, and a general regulatory and economic advisory function.

Under the ESC Act, the Commission has the primary objective of the

'... protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services.'

The ESC Act sets out seven further factors that the Commission must have regard to in performing its functions:

- ▶ promoting competitive and fair market conduct
- ▶ preventing misuse of monopoly or market power
- ▶ facilitating entry into relevant markets
- ▶ promoting economic efficiency
- ▶ ensuring consumers benefit from competition and efficiency
- ▶ facilitating maintenance of the financial viability of regulated industries and the incentive for long-term investment, and
- ▶ promoting consistency in regulation with other jurisdictions.

The Commission acts independently, transparently and objectively in performing its functions and exercising its powers. The Commission promotes a culture in which Commissioners and staff are independent, consultative, ethical, professional, accountable and transparent. This is reflected in the Commission's corporate values, which support,

uphold and promote the values of the South Australian Public Sector.

The Commission adds benefit to the South Australian community. It ensures that consumers of regulated services are adequately protected and that entities and businesses are both held accountable for their services, through a principles-based and proportionate regulatory response, and enabled and encouraged to demonstrate best business behaviour.

Under the ESC Act and industry acts, it also provides expert independent advice to the South Australian Government. This informs and provides an evidence base for policy making and public consideration of economic and regulatory issues.

Advisory functions

The Commission has two broad advisory functions.

The first is to provide advice to the Treasurer, on request, in relation to any matter (section 5(f) of the ESC Act). In that capacity the Commission acts as a consultant to the South Australian Government, providing independent advice on economic and regulatory matters.

The second is to conduct public inquiries (Part 7 of the ESC Act). Such inquiries can be initiated by the Commission into any matters within its regulatory scope. In addition, the Treasurer or an industry Minister can initiate an inquiry into any matter concerning a regulated industry. Inquiries are conducted through a formal public process and final reports are tabled in Parliament.

Regulatory functions

The Commission performs a range of functions across the different industries it regulates. These include pricing, licensing, performance monitoring and reporting, compliance and scheme administration. For each industry, the relevant industry regulation Act specifies the scope of the Commission's role, as summarised in Table 1.

Legislation administered by the Commission

Table 1: Commission's regulatory functions by industry

| Icon | Legislation | Regulatory functions |
|---|---|---|
|  | Water Industry Act 2012 | Water and sewerage retail service providers: <ul style="list-style-type: none"> ▶ Licensing ▶ Retail price regulation ▶ Consumer protection ▶ Service/reliability standard setting ▶ Performance monitoring and reporting Third Party Access Regime regulator |
|  | Electricity Act 1996 | Electricity retail operations: <ul style="list-style-type: none"> ▶ Monitoring and, if necessary, determination of the retailer Solar Photovoltaic Feed-in Tariff ▶ Preparation and publication of Ministerial Energy Retail Pricing reports ▶ Retailer Energy Efficiency Scheme administration Electricity generation, transmission, distribution and off-grid retailers: <ul style="list-style-type: none"> ▶ Licensing ▶ Network service/reliability standard setting ▶ Performance monitoring and reporting |
|  | Gas Act 1997 | Gas retail operations: <ul style="list-style-type: none"> ▶ Preparation and publication of Ministerial Energy Retail Pricing reports ▶ Retailer Energy Efficiency Scheme administration Licensing of retail and distribution LPG gas operations Licensing of natural gas operations, standard setting, performance monitoring and reporting |
|  | AustralAsia Railway (Third Party Access) Act 1999; Railway (Operations and Access) Act 1997 | Tarcoola–Darwin railway regulator under the AustralAsia (Third Party Access) Code Intrastate rail lines access regulator |
|  | Maritime Services (Access) Act 2000 | Ports services pricing and access regulator |

Key strategies and Commission goals

The Commission produces a rolling three-year strategic plan annually. The strategic plan shows how the Commission will deliver its statutory work program and contribute to the economic wellbeing of South Australians.

The strategic plan outlines the goals that guide the Commission in meeting its primary objective of protecting the long-term interests of consumers with respect to price, quality and reliability of essential services.

The four goals for 2016-17 to 2018-19 are:

1. To establish consumer protection frameworks to promote the delivery of service levels valued by consumers at an efficient cost.
2. To keep regulated businesses accountable by monitoring and publicly reporting on service standards and regulatory requirements.
3. To engage genuinely with our stakeholders to achieve the best possible decisions and build understanding of economic and regulatory issues.
4. To add value to South Australia by delivering impartial, credible and robust regulatory and economic advice.

The Commission also produces an annual performance plan. This sets out the core work program with respect to the full range of the Commission's functions for each financial year.

The Commission's key initiatives against its goals and performance plan program in 2016-17 are set out in Appendix 1.

Organisation of the Commission

The Commission comprises a [Chairperson and part-time Commissioners](#). It is supported by [27 staff](#) (24.1 full-time equivalents at 30 June 2017), led by the Chief Executive Officer.

At 30 June 2017, the Commission comprised Mr Brett Rowse as Chairperson and Commissioner, Dr Lynne Williams AM as Acting Chairperson and Commissioner, and Ms June Roache, Professor David Round AM and Mr Geoff Knight as Commissioners.

The Chairperson and Commissioners are appointed by the Governor of South Australia, pursuant to section 12 of the ESC Act. The Governor may appoint persons as Commissioners who are qualified for appointment on the basis of their knowledge of, or experience in, industry, commerce, economics, law and/or public administration.

The Commission employs a diverse range of professional and technically qualified staff, with backgrounds in areas including economics, engineering, law and finance.

The Commission is set up as a functionally-based organisation. The work groups are not based around particular essential services, but functional groups. They are the:

Consumer Protection and Pricing Group

This group is responsible for all pricing, access, consumer protection and policy matters. It is also responsible for developing regulatory instruments (such as industry codes).

Licensing, Monitoring and Reporting Group

This group is responsible for developing and administering licensing and authorisation arrangements for regulated businesses, regulatory compliance, performance monitoring, and reporting (including developing reporting and related guidelines). It also administers the Retailer Energy Efficiency Scheme.

Advisory and Research Group

This group is responsible for providing a range of advisory and research services, both within the Commission and to the South Australian Government. These services cover regulatory, economic and related matters. The group provides a single internal point of contact and management for requests for advice and for undertaking inquiries.

Corporate Services Group

This group provides support to the Commission. That support includes legal, finance, human resources, corporate governance, risk management, information technology, records management, media and communication, strategy and planning, and executive and administrative support.

Commission's performance management and development system

Table 2: Effectiveness and efficiency of performance management and development system

| Performance management and development system | Assessment of effectiveness and efficiency |
|---|---|
| The Commission is committed to fostering a positive workplace culture. Employee performance standards and expectations are mutually understood. Employees are provided with the appropriate leadership, feedback and development to undertake their work to the best of their ability. This commitment is underpinned by a Performance Management Policy and operational guideline. | Active preparation and participation by all managers and employees in a process of performance management is expected and achieved. At 30 June 2017, 100 percent of staff had a Performance Agreement in place. This commitment to performance management is evident through the high achievement against the Commission's performance plan and key deliverables. |

Work health, safety and rehabilitation programs of the Commission and their effectiveness

The Commission is committed to the health, safety and wellbeing of all staff. Work health, safety and wellbeing initiatives are included in the annual Workforce Strategy. This includes an Employee Assistance Program, available to Commissioners and all staff.

As the Commission is an agency of the Crown, it is deemed to be registered as a self-insured employer under section 129 of the Return to Work Act 2014. The Commission must comply with the South Australian Public Code of Practice for Crown Self-insured Employers.

Table 3: Work health, safety and rehabilitation programs

| Work health, safety and rehabilitation programs | Effectiveness |
|---|---|
| Incident/injury management | Achieved – nil notifiable incidents during 2016-17 |
| Hazard management | Achieved – hazards responded to within required timeframes |
| WHS policies | Achieved – all policy and procedure reviews completed in required timeframes |
| Training | Achieved – WHS training plan in place and completed |
| Safe work systems | Achieved – scheduled activities undertaken as required |
| Workplace inspections | Achieved – workplace inspections conducted quarterly |
| Consultation with staff | Achieved – staff actively consulted on WHS issues and WHS policy reviews |
| Return to work | Achieved – nil incidents during 2016-17 |
| Induction | Achieved – all new employees and contractors undertook an induction on their first day in 2016-17 |
| Employee Assistance Program | Achieved – available to all staff for 2016-17 |
| Psychological health strategies | Achieved – all strategies implemented in 2016-17 |
| Wellbeing Plan | Achieved – activities undertaken during 2016-17 |

Fraud detected in the Commission

No instances of fraud were detected within the Commission during 2016-17.

For further information, the Office for the Public Sector has a data dashboard on [data.sa](#), including information on the breakdown of executive gender, salary and tenure by agency.

Strategies implemented to control and prevent fraud

The Commission has a comprehensive framework for detecting, mitigating and managing risk and fraud. This framework includes maintaining and reviewing a robust internal control environment with mechanisms for detecting, reporting and dealing with instances or suspicions of dishonesty or internal fraud.

Data for the past five years is available in the Commission's previous [annual reports](#).

Whistle-blowers' disclosure

Table 4: Whistle-blowers' disclosure

| Whistle-blowers' disclosure | Number of occasions |
|---|---------------------|
| Number of occasions on which public interest information has been disclosed to a responsible officer of the agency under the Whistle-blowers' Protection Act 1993 | Nil |

Data for the past five years is available in the Commission's previous [annual reports](#).

Executive employment in the Commission

Table 5: Executive employment

| Executive classification | Number of executives |
|--------------------------|----------------------|
| Level A | 2 |
| Level B | 1 |
| Level D | 1 |

Data for the past five years is available in the Commission's previous [annual reports](#).

Consultants

Use of consultants

The Commission is a small office with broad regulatory, inquiry and advisory responsibilities. The Commission supplements the expertise of its own staff with specialist technical, economic and other advisors and consultants when efficient to do so.

The Commission's work program drives its expenditure on consultants. The Commission incurs a higher level of spending in years when it is making a regulatory determination.

Details are summarised in Table 6 below.

Data for the past five years is available in the Commission's previous [annual reports](#).

Also, see the [South Australian Tenders and Contracts website](#) for a list of all external consultancies, including nature of work and value. See also the Consolidated Financial Report of the [Department of Treasury and Finance](#) for total value of consultancy contracts across the SA Public Sector.

Contractual arrangements

Details of the Commission's procurement contracts for 2016-17 are disclosed on the [South Australian Tenders and Contracts website](#).

Table 6: Consultant projects 2016-17

| | | |
|---------------------------------|---|---------------------------|
| Value below \$10,000 | Number: 2 | Amount: \$17, 000 |
| Value \$10,000 and above | Number: 5 | Amount: \$108, 000 |
| Bureau of Meteorology | Climate analysis for 2016 to date, including weather extremes | |
| Houston Kemp Pty Ltd | Advice on the advantages and disadvantages of adopting a long-term cost of equity for revenue regulation purposes | |
| ACIL Allen Consulting | Advice on the range of potential retailer feed-in tariff values for the 2017 calendar year | |
| KPMG Australia | Review of Commission's compliance and control environment | |
| GHD Pty Ltd | Benchmarking study of ports prices in South Australia against comparable Australian ports | |
| Total all consultancies | Amount \$125, 000 | |

Financial performance of the Commission

The following discussion summarises the Commission's overall financial position. Full audited financial statements for 2016-17 are in Appendix 2.

Result

The Commission's 2016-17 net result was a surplus of \$0.63 million, which is favourable by \$2.49 million to the budgeted deficit of \$1.86 million. The deficit budget reflected the intent to reduce surplus electricity and gas licence fee funds held on the Commission's behalf.

Revenue

The Commission's revenue from all sources in 2016-17 was \$5.70 million. This result was \$1.82 million more than 2015-16. Revenue was sourced from the following industries: Water \$4.09 million; Energy (Electricity and Gas) \$0.65 million; Ports, Rail and Other Sources \$0.95 million.

Each year, the Commission invoices and collects funds that it must transfer to various parties. These are The Australian Energy Market Commission, Technical Regulator, Department of Treasury and Finance and Department of Environment, Water and Natural Resources. These transfers are 'Administered Items'. The Commission invoiced licence and administration fees of \$17.65 million in 2016-17 (\$11.04 million in 2015-16) and transferred \$12.92 million as Administered Items (refer to Notes 10 and 28 in Appendix 2 for further details).

The Commission invoiced water licence fees totalling \$9.88 million (\$3.36 million in 2015-16). The SA Water licence fee was the largest, at \$9.5 million. Smaller water licensees contributed further licence fees totalling \$0.38 million.

After the required transfers of \$5.79 million as Administered Items, the Commission's water licence fee revenue was \$4.09 million.

The Commission invoiced energy licence fees of \$7.01 million in 2016-17 (\$6.85 million in 2015-16) and retail energy administration fees of \$0.76 million in 2016-17 (\$0.78 million in 2015-16). After the required transfer of \$7.13 million as Administered Items, the Commission's energy

licence and administration fee revenue was \$0.64 million (\$0.82 million in 2015-16).

The South Australian Government funds the Commission's regulation of ports and intrastate rail, while the South Australian and Northern Territory governments fund its Tarcoola–Darwin rail activities. In 2016-17, the South Australian Government provided \$0.68 million (\$0.33 million in 2015-16) in funding for ports and rail activities, while the Northern Territory Government provided funding of \$0.15 million (\$0.04 million in 2015-16).

Expenses

Expenses decreased by \$0.25 million (4.6 percent below 2015-16). The total expenditure in 2016-17 was \$5.08 million (\$5.32 million in 2015-16). The decrease in expenses was directly related to the work program.

The salary and wage expense was the most significant expenditure item, totalling \$3.44 million (\$3.58 million in 2015-16). The supplies and services expense, which includes the use of consultants, was \$1.40 million (\$1.59 million in 2015-16), a 12.4 percent decrease. The consultant expense was \$0.13 million (\$0.33 million in 2015-16), a 62.0 percent decrease due to conducting fewer regulatory determinations.

Other financial matters

Capital expenditure

The Commission's capital expenditure in 2016-17 was \$0.04 million (\$0.07 million in 2015-16). This expenditure was primarily funding for a new website and regulatory reporting project.

Overseas travel

The Commission discloses all information relating to overseas travel of employees and Commissioners on the Commission's website.

There were [three overseas trips](#) in 2016-17.

Other financial information

Nil to report.

Consultation and stakeholder engagement

The Commission is strongly committed to engaging and consulting with all stakeholders. The information and advice gained through stakeholder and community engagement enhances the quality of the Commission's regulatory decisions and advice. The Commission is committed to acting on the best available data and information.

Genuine and effective engagement builds the community's understanding of the sectors the Commission regulates, and of the regulatory issues that are important to this state and specific communities. Given this, the Commission uses a variety of methods to engage and consult with the community, depending on the work it is undertaking. It uses both formal and informal consultation processes, for example. In 2016-17 there was an increased focus on regional engagement along with meetings and forums held in Adelaide.

The Commission recognises its decision-making processes must be sound, rigorous and in accordance with the legal obligations placed on it by the South Australian Parliament. The [Charter of Consultation and Regulatory Practice](#) outlines the Commission's decision-making and consultation processes.

The Commission also works with other agencies to provide a coordinated approach to regulation and advice. These agencies include the Technical Regulator, Australian Energy Regulator, Australian Energy Market Operator, Australian Energy Market Commission, Department of State Development, SA Health, Department of Environment, Water and Natural Resources, Environmental Protection Agency and the Department for Communities and Social Inclusion.

Consumer Advisory Committee

Further, under section 17 of the ESC Act, the Commission may establish committees to advise on specified aspects of the Commission's functions. The Commission established a Consumer Advisory Committee for this purpose.

The Commission aims to achieve balance and a variety of perspectives among the Consumer Advisory Committee members. Membership is drawn from peak bodies representing a wide range and diversity of interests, including disadvantaged consumers, rural and remote consumers, local government, environmental interest groups, industry and business.

Through the Consumer Advisory Committee, the Commission gains members' views on issues of interest for communities. It informs members about issues and decisions relating to, or affecting, consumers.

The Consumer Advisory Committee considered and provided input into all major regulatory decisions and issues the Commission considered during the year.

The membership of the [Consumer Advisory Committee](#) is outlined in the financial statements at Note 23.

Small Grants Program

The Commission makes provision in its budget for a Small Grants Program. This program assists Consumer Advisory Committee members in undertaking programs, activities and research that benefit water and energy consumers, and that will also assist the Commission in meeting its statutory objective.

The Commission received one application for a small grant during 2016-17. Uniting Communities sought funding for its Committee member to attend various forums in the United Kingdom held by utility networks and regulators. The Commission approved a small grant of \$3,100 to cover flights, travel and accommodation.

Inquiries and advice

The Commission commenced four inquiries (under Part 7 of the ESC Act) during 2016-17 and provided formal advice to the Treasurer (under section 5(f) of the ESC Act).

Inquiries are conducted through a formal public process and final reports are tabled in Parliament.

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

The Commission considered an [inquiry](#) into how it regulates small-scale utility operations. This inquiry aims to ensure the Commission's regulatory frameworks applied under industry regulation Acts are consistent with its primary statutory objective, are proportionate, and are responsive to recent and emerging issues.

The Commission commenced an inquiry into appropriate regulatory arrangements to apply to small-scale water supplies, sewerage services, non-national market electricity and reticulated liquefied petroleum gas supplies.

The Commission released an issues paper in August 2016, with both a draft and final report to be released in 2017-18.

Inquiry into the licensing arrangements for generators in South Australia

In June 2016, the Commission commenced an [inquiry](#) into technical licence conditions for inverter-connected electricity generators.

The Commission released a draft report in May 2017, which proposed changes to licence conditions for all new electricity generators (regardless of fuel source) aimed at promoting the resilience and security of the South Australian power system. The proposals are based on technical advice provided by the Australian Energy Market Operator. The Commission consulted on these proposals before making a final decision in late 2017.

Since 2005, the Commission has been imposing additional conditions in licences for grid-scale, inverter-connected wind-powered generation.

This inquiry considered:

- ▶ whether the current licence conditions for the grid connection of wind-powered electricity generators should be removed, retained or varied, and
- ▶ whether any additional or amended technical requirements should be imposed on other grid-scale inverter-connected electricity generators (such as solar generation) or other generation technologies and sources (including conventional synchronous generation).

Inquiry into reliability and quality of electricity supply on the Eyre Peninsula

In March 2017, the Treasurer referred to the Commission an [inquiry](#) into the reliability and quality of electricity supply on the Eyre Peninsula.

The Commission submitted a draft report to the Treasurer in May 2017. This report identified various technical options that would improve the reliability and quality of supply on the Eyre Peninsula. The Commission is further consulting until August 2017 and, after considering submissions, will provide a final report to the Treasurer in October 2017.

The draft report found some options, particularly certain generation options, could deliver reliability benefits that exceed the implementation costs. It also identified opportunities to improve the regulatory framework to provide better processes for system planning and coordination of network and non-network activities. This is important given the technological changes that are currently occurring in the electricity industry.

Inquiry into the South Australian bulk grain export supply chain costs

In March 2017, the Treasurer referred to the Commission an [inquiry](#) into the South Australian bulk grain supply chain costs.

This inquiry is ongoing. Its purpose is to determine the reasonableness of the costs underpinning the South Australian bulk grain export supply chain.

The inquiry is being undertaken in two parts:

- ▶ first, inquiring into South Australian bulk grain export supply chain costs over the past 10 years, and
- ▶ second, should areas be identified where bulk grain supply chain costs are inefficient, options will be provided for addressing those inefficiencies.

The inquiry is expected to be completed in March 2018.

Advice to the Treasurer on 1 July 2016 South Australian retail electricity price increases

On 21 April 2017, the Commission advised the Treasurer on the justification for the 1 July 2016 South Australian retail electricity price increases announced by AGL, Origin Energy and EnergyAustralia.

The Commission concluded movements in the wholesale cost of electricity justified these retail electricity price increases.

Regulatory

Water

The Commission has responsibility for the economic regulation of water and sewerage retail services in South Australia. This includes water and sewerage services offered by SA Water, local government councils and private businesses across the state.

The ESC Act, the Water Industry Act 2012 and the regulations under the Water Industry Act establish the Commission's regulatory powers and functions relating to the water and sewerage service industries.

These powers and functions include licensing water and sewerage retail service providers, service standard setting, compliance, consumer protection, retail price regulation and performance monitoring and reporting.

Collectively, the retailers licensed under the Water Industry Act provide drinking water services to 764,000 properties (servicing 1.6 million people) and sewerage services to 685,000 properties (1.46 million people) in South Australia.

SA Water is the largest retailer, servicing over 99 percent of total drinking water connections and 87 percent of total sewerage connections. Local government councils and private businesses hold the other licences.

Water price regulation

The Commission has made separate price determinations: one for SA Water, and one for minor and intermediate water retailers.

During 2016-17, the SA Water regulatory determination 2020 project commenced with initial consultation on the regulatory framework and approach.

Also during 2016-17, the Commission varied the 2013-2017 Price Determination for Minor and Intermediate Water Retailers, by extending the term

of the determination for 12 months, to 30 June 2018.

This extension allows for the Commission's inquiry into the regulatory arrangements to apply to small-scale and off-grid water, gas and electricity suppliers (see page 11 for further information). Specifically, it allows the Commission to consult with the public on any proposed changes to the regulatory framework applying to minor and intermediate water retailers.

Water licensing

During 2016-17, the Commission issued one new licence, transferred one licence, varied three existing licences and issued two exemptions from the requirement to hold a licence (with the approval of the Minister):

- ▶ Water retail licence application – Corporation of the City of Whyalla
- ▶ Water retail licence transfer – Robusto Investments (from Hillrise Investments Pty Ltd)
- ▶ Water retail licence variation – District Council of Tumby Bay
- ▶ Water retail licence variation – District Council of Mount Remarkable
- ▶ Water retail licence variation – District Council of Franklin Harbour
- ▶ Water retail licence application for exemption – Minister for Sustainability, Environment and Conservation
- ▶ Water retail licence for exemption – Adelaide Hills Berry Farm.

A list of all water retail licences and exemptions can be found on the [water licence register](#) on the Commission's website.

Water codes and guidelines

Industry codes prescribe detailed rules of conduct and procedures that water licensees must follow. Industry codes can cover a wide range of areas within a regulated industry, from consumer protection to technical matters. Guidelines support

these codes and generally relate to the manner in which licensees must report to the Commission.

The Commission has established the following Code and guideline for SA Water:

- ▶ Water Retail Code – Major Retailers
- ▶ Water Guideline No 2 – Information requirements for major retailers.

The Commission has established the following Code and guideline for retailers with up to and including 50,000 connections:

- ▶ Water Retail Code – Minor and Intermediate Retailers
- ▶ Water Guideline No 3 – Information requirements for minor and intermediate retailers.

During 2016-17, the Commission varied the Water Retail Code and Water Guideline No 2, to reflect the outcomes of the 2016 Regulatory Determination for SA Water.

Water retailer performance

The Commission keeps regulated business accountable by monitoring and reporting on service standards and licence requirements.

The Commission reports on customer service and operational performance outcomes for water and sewerage service retailers licensed under the Water Industry Act 2012. The Commission publishes an annual regulatory performance report for SA Water, as South Australia's major water retailer, and a separate report on Minor and Intermediate Retailers.

SA Water's performance

The Commission published the [SA Water Regulatory Performance Report 2015-16](#), for drinking water and sewerage services in January 2017. Key performance outcomes were:

- ▶ SA Water met 65 out of 66 service standards in 2015-16.
- ▶ SA Water received 2.29 complaints per 1,000 customers in 2015-16, down from

2.45 complaints per 1,000 customers in 2014-15.

- ▶ SA Water completed 97 percent of water service restorations on time, with an average customer outage duration of 190 minutes.
- ▶ SA Water completed 95 percent of sewerage service restorations on time, with an average customer outage duration of 454 minutes.
- ▶ SA Water completed 93 percent of water and 90 percent of sewerage new customer connections on time.

The Commission reports separately on pricing, finance, assets and water resources in a related document, the National Performance Report: Urban Water Utilities. The Australian Bureau of Meteorology prepares that report on behalf of state and territory governments, and economic regulatory agencies.

Minor and intermediate retailer performance

The Commission published the [Minor and Intermediate Regulatory Performance Report 2015-16](#) in April 2017. Key observations were:

- ▶ Local councils and small private operators provided drinking water services to approximately 5,700 customers and sewerage services to approximately 91,000 customers.
- ▶ The scale and scope of water and sewerage services varied considerably across retailers, resulting in a spread of customer prices and service performance.
- ▶ Almost two thirds (63 percent) of retailers reported they fully recover the costs of service provision. Of the retailers that reported operating deficits, many are still transitioning and are gradually adjusting prices to limit the price shock to customers.
- ▶ Most retailers reported having systems in place to report against the performance metrics set by the Commission. The Commission will focus on data integrity and continue to work with the remaining retailers to ensure they will have processes in place that allow accurate data in future years.

- ▶ The timeliness and quality of annual reports improved. Retailers demonstrated a better understanding of, and compliance with, their regulatory obligations. Further, retailers are actively engaging with the Commission, which improves outcomes for customers.

Water compliance

The Commission regulates compliance and enforcement in the water industry, using various powers to protect consumers' long-term interests.

The Commission established the [Water Guideline No 1 – Compliance and reporting](#), which supports the compliance regime. During 2016-17, the Commission varied this guideline, to reflect the outcomes of the 2016 Regulatory Determination for SA Water.

The Commission also published an [enforcement policy](#), which provides guidance on the criteria and processes it uses in determining the type of enforcement action required on a case-by-case basis.

All licensees must report annually to the Commission about their compliance systems and processes. This licence requirement aims to confirm consumers receive the intended benefits of regulating essential services.

Compliance monitoring

The Commission's compliance reporting and auditing framework monitors regulated entities' compliance with regulatory obligations, to confirm consumers receive the intended benefits of regulating essential services.

In 2016-17, the Commission did not identify any material non-compliances. Nor did licensees report any material non-compliances in their annual compliance reports (noting the investigation of Robusto Investments Pty Ltd discussed below).

A review of the annual compliance reports for 2016-17 found the information provided by the majority of licensees generally met the requirements of the licence and/or guideline.

Robusto Investments Pty Ltd

The Commission is investigating concerns raised by residents in Mt Compass regarding the water retail operations of Robusto Investments Pty Ltd.

Specifically, it is reviewing Robusto Investments Pty Ltd's proposed pricing structure, contracts, policies and procedures to ensure compliance with the regulatory framework. The Commission is also helping the business establish processes to resolve customers' concerns in the first instance.

Water retailer discovery project

In 2016-17 the Commission commenced an investigation to identify any entities that may be providing water retail services (as defined in the Water Industry Act) but that do not hold a licence or exemption for the service.

The Commission is consulting with other regulators and the broader community about these entities. The Commission will take appropriate steps to ensure any entities providing a retail service are appropriately authorised under the Water Industry Act.



While the Australian Energy Regulator is the body primarily responsible for economic regulation of the energy industry in South Australia, the Commission has certain regulatory powers and functions in the sector. The ESC Act along with the Electricity Act 1996, Gas Act 1997, and regulations made under those Acts, establish these regulatory powers and functions.

Commission responsibilities in 2016-17 include:

- ▶ monitoring and, if necessary, setting the solar retailer feed-in tariff (under the Electricity Act)
- ▶ preparing annual Ministerial Energy Pricing Reports (under the Electricity Act and the Gas Act), and
- ▶ licensing and monitoring network businesses and off-grid suppliers.

In the network sector, the Commission is the licensing authority and sets reliability standards. In the generation sector, the Commission is the licensing authority for all electricity generation sources (including wind, solar and battery).

Solar retailer feed-in tariff

During 2016-17, the Commission finalised a public [review](#) to consider whether it is necessary and appropriate to set a minimum retailer feed-in tariff (R-FiT) from 1 January 2017.

It decided to not set a minimum amount for the purposes of the R-FiT scheme, concluding the minimum R-FiT may be preventing solar customers from accessing the best possible offers from energy retailers.

Instead, each electricity retailer must now determine the R-FiT amount and structures it will pay to its solar customers for electricity fed into the distribution network. Retailers must demonstrate publicly how their offers benefit solar customers.

The Commission will maintain an active monitoring role in this area. If evidence arises to show this change is not meeting the long-term interests of consumers, the Commission retains reserve

powers to reset a minimum price for the R-FiT under the Electricity Act.

Energy licensing

During 2016-17, the Commission issued two new electricity generation licences and one approved LPG network:

- ▶ Electricity generation licence – HWF 2 Pty Ltd
- ▶ Electricity generation licence – Energy Generation
- ▶ Authorised LPG network – Australian Gas Networks Ltd.

At 30 June 2017, the Commission was in the process of assessing:

- ▶ three electricity generation licence applications
- ▶ one variation to an existing licence, and
- ▶ one surrender of a licence.

A list of all licences and exemptions can be found on the [electricity licence register](#) and [gas licence register](#) on the Commission's website.

Energy codes and guidelines

The Commission has made four electricity industry codes and four gas industry codes. Compliance with relevant codes is a mandatory condition of energy licences issued by the Commission.

Industry codes prescribe detailed rules of conduct and procedures that energy licensees must follow. Industry codes can cover a wide range of areas within a regulated industry, from consumer protection to technical matters. Guidelines support these codes and generally relate to the manner in which licensees must report to the Commission.

The Commission has a jurisdictional role in determining reliability standards for energy network businesses operating in the National Electricity Market. These performance standards are specified in the industry codes.

Electricity Transmission Code review – 2018-2023 regulatory period

During 2016-17, the Commission completed its review of the [Electricity Transmission Code](#) transmission reliability standards for the 2018-2023 regulatory period. The Commission released a final decision in September 2016.

The key amendments to the code, which will take effect on 1 July 2018, are designed to:

- ▶ further enhance the outcomes-based nature of the reliability standards, and
- ▶ protect consumers from unnecessary capital improvements to the transmission network, in the face of uncertain long-term electricity demand estimates.

This review enables ElectraNet to develop its planned capital and operating costs, which it will then incorporate into its regulatory business proposal. ElectraNet will submit its proposal to the Australian Energy Regulator for its next revenue determination.

Energy businesses performance

The Commission keeps regulated businesses accountable by monitoring and reporting on service standards and licence requirements.

The Commission reports on customer service and operational performance outcomes for energy businesses licensed under the Electricity Act and Gas Act.

The Commission published the [Energy Businesses Regulatory Performance Report 2015-16](#) along with detailed data in January 2017. This report covers distribution, transmission, and off-grid electricity and gas suppliers, as well as liquefied petroleum gas (LPG) suppliers. Key performance outcomes were:

SA Power Networks

- ▶ SA Power Networks met all customer responsiveness service standards.
- ▶ SA Power Networks met network reliability service standards for all regions.

- ▶ Customers experienced an average duration of supply interruption of 139 minutes per customer, the lowest since 2007-08.

ElectraNet

- ▶ ElectraNet restored transmission network outages within required timeframes.
- ▶ The number of transmission supply interruptions (and duration of these interruptions) were low compared with the historical average.

Australian Gas Networks

- ▶ The amount of gas lost from the gas distribution network reduced to approximately 2.6 percent of gas entering the distribution system, continuing the downward trend of the past six years.

Off-grid and LPG retailers and distributors

- ▶ Approximately 9,000 customers received either electricity or LPG through off-grid distribution networks.
- ▶ These businesses complied with their customer service and network reliability obligations, as set out in their licences.

Energy compliance

The Commission regulates compliance and enforcement in the energy industry, using various powers to protect consumers' long-term interests.

The Commission established the following guidelines which support the compliance regime:

- ▶ Energy Industry Guideline No 4 – Compliance Systems and Reporting
- ▶ Retailer Energy Efficiency Scheme Bulletin No 18 – Compliance Framework.

The Commission also published an [enforcement policy](#), which provides guidance on the criteria and processes it uses in determining the type of enforcement action required on a case-by-case basis.

All licensees must report annually to the Commission about their compliance systems and processes.

Compliance monitoring

The Commission's compliance reporting and auditing framework monitors regulated entities' compliance with regulatory obligations.

In 2016-17, the Commission did not identify any material non-compliances. Nor did licensees report any material non-compliances in their annual compliance reports.

A review of the annual compliance reports for 2016-17 found the information provided by the majority of licensees generally met the requirements of the licence and/or guideline.

Network restoration during significant weather events

South Australia experienced a state-wide power system outage on 28 September 2016 and a major distribution outage on 27-28 December 2016.

The Commission reviewed the performance of the transmission network operator, ElectraNet, and the distribution network operator, SA Power Networks. It determined ElectraNet and SA Power Networks complied with the conditions of their licences (granted under the Electricity Act) before, during and after these events.

The key findings from each review are set out below.

[28 September 2016 state-wide power system outage](#)

On Wednesday 28 September 2016, South Australia experienced a state-wide power system outage that affected customers across the state.

- ▶ Severe weather gave rise to an emergency condition and ElectraNet was required to use its best endeavours to restore power.
- ▶ ElectraNet complied with its licence conditions and the Electricity Transmission Code. However, the Commission identified areas for improvement to promote consumer interests.
- ▶ The outage highlighted additional risks in operating the generation support at Port Lincoln. As a result, opportunities exist to improve operating the generator and to clarify regulatory obligations.

- ▶ ElectraNet will conduct a compliance audit on the risk management portion of its Safety, Reliability, Maintenance and Technical Management Plan.

[27-28 December 2016 severe weather event](#)

On 27-28 December 2016, severe storms affected the community acutely, damaging homes, land, trees, roads and other public infrastructure, and also SA Power Networks' electricity distribution system.

- ▶ The number and duration of interruptions triggered the Major Event Day framework in the Electricity Distribution Code, and SA Power Networks was required to restore supply as soon as practicable.
- ▶ SA Power Networks did not breach either the reliability or the customer service regulatory standards imposed by the Commission.
- ▶ SA Power Networks accepted multiple messages about predicted restoration times was confusing at times. In response, it has implemented corrective action (both immediate and longer-term) to lower the risk of customers receiving erroneous information.

Load shedding incident – 8 February 2017 compliance review

The Commission reviewed the performance of ElectraNet and SA Power Networks relating to this incident.

The Commission determined ElectraNet (the transmission network operator) complied with the conditions of its licence before and during the load shedding event.

The Commission will finalise a review of SA Power Networks' compliance with its distribution licence after the Australian Energy Regulator completes its own review on compliance (or otherwise) with the relevant obligations of the National Electricity Law and National Electricity Rules.

In undertaking the review, the Commission considered a number of sections of the National Electricity Law and the National Electricity Rules, as they apply in respect of load shedding and their interaction with licences granted under the Electricity Act.

Torrens Island power station incident – 3 March 2017 investigation

In March 2013, the Minister for Mineral Resources and Energy requested the Commission investigate an incident that occurred at the Torrens Island power station on Friday 3 March 2017. Specifically, an explosion and subsequent fire occurred in an adjacent switchyard, owned by ElectraNet. At approximately the same time, Pelican Point power station (which was online at the time) tripped along with the three station units at the Torrens Island power station.

The Commission commenced a review, in conjunction with the Technical Regulator, to understand all aspects leading up to, during and following the incident, including:

- ▶ equipment maintenance and the cause of the explosion
- ▶ the series of events following the explosion, and
- ▶ the actions taken by parties involved.

The Commission will provide its findings to the Minister when the review is complete.

Power Line Environment Committee

The Power Line Environment Committee recommends to the Minister for Mineral Resources and Energy projects to underground electricity power lines (in accordance with the Electricity (General) Regulations 2012). SA Power Networks carries out this work.

The program's prescribed funding, for work to be carried out during 2017-18, is \$6.85 million. To meet this funding requirement, the Committee approved seven projects for undergrounding 4.8 kilometres of existing overhead cables. The total funding, including Councils' contributions, is \$10.28 million. Projects in the metropolitan area account for 53 percent of funding, with projects in regional areas accounting for the remaining 47 percent.

The Commission provides administrative support to the Committee. The Commission's website contains further information on the [Power Line Environment Committee](#), including its charter and [annual report](#).

Retailer Energy Efficiency Scheme

The Retailer Energy Efficiency Scheme (REES) is a South Australian Government energy efficiency scheme that provides incentives for South Australian households and businesses to save energy. It does this through establishing energy efficiency and energy audit targets that electricity and gas retailers must meet.

The scheme initially started on 1 January 2009 as the Residential Energy Efficiency Scheme. From 1 January 2015, the Retailer Energy Efficiency Scheme replaced the Residential Energy Efficiency Scheme, and now includes small business. The Commission administers REES and reports to the Minister for Mineral Resources and Energy annually on retailers' progress in achieving the required targets.

REES 2016 outcomes

In June 2017, the Commission published the [REES Annual Report 2016](#). The key 2016 findings were:

- ▶ The overall annual REES targets were achieved and all obliged retailers met their individual targets.
- ▶ A total of 5,797 energy audits were undertaken and obliged retailers applied an additional 5,215 energy audit credits (earned in prior years) to exceed the target by 94 percent.
- ▶ Energy savings of 1,851,990 gigajoules were delivered (powering almost 100,000 households and businesses), which was 66 percent higher than that delivered in 2015.
- ▶ When prior year credits are included, the Energy Efficiency Target was exceeded by 40 percent. Many obliged retailers have significant credit balances to carry over towards 2017 targets.
- ▶ The proportion of activities conducted in regional and remote areas increased to 9.6 percent in 2016, compared with 4.5 percent in 2015.
- ▶ Of the total energy savings delivered, 9 percent were delivered to priority group households. When prior year credits are included, the 2016 Priority Group Energy Efficiency Target was exceeded by 93 percent.

- ▶ Seventy two percent of energy savings were from commercial activities; 69 percent from commercial lighting and three percent from commercial showerheads. During 2016, 3,315 businesses benefitted from REES activities.
- ▶ Over 182,000 installed energy efficient lights were reported in commercial premises. A further 180,000 installed energy efficient lights were reported in residential premises.
- ▶ Energy savings from residential activities fell by 26 percent, but still accounted for 92 percent of activities undertaken.
- ▶ The number of premises receiving a REES activity or energy audit fell by 24 percent, compared with 2015. This result reflects that 19 percent fewer activities and audits were undertaken in 2016 compared with 2015.

REES Code review 2017

During 2016-17, the Commission commenced a review of the [REES Code](#), to improve the Commission's administration of REES.

The Commission released an issues paper in May 2017, with a draft decision to be released before the end of 2017 and final decision in early 2018.

Ports

The Commission is the economic regulator for six 'proclaimed ports' in South Australia under the Maritime Services (Access) Act 2000.

The six proclaimed ports, all operated by Flinders Ports Pty Ltd, are:

- ▶ Port Adelaide
- ▶ Port Giles
- ▶ Wallaroo
- ▶ Port Pirie
- ▶ Port Lincoln, and
- ▶ Thevenard.

The Maritime Services (Access) Act provides for access and price regulation of South Australian ports services.

The Commission regulates three types of ports services:

- ▶ essential maritime services – subject to price regulation with price monitoring
- ▶ regulated services – subject to the ports access regime, which operates under a negotiate/arbitrate framework, and
- ▶ maritime services – broader services subject to a range of review and notification processes, including:
 - notification of changes in pilotage charges (under a price monitoring regime)
 - development of service standards as appropriate, and
 - keeping ports industries under review to determine whether regulation is required.

No access disputes were notified in 2016-17.

Ports price monitoring report 2016

In December 2016, the Commission published a [2016 Ports Price Monitoring Report](#) – the fourth of such reports. It provides stakeholders and the general public with information on price movements for essential maritime services and pilotage services charges across six of Flinders Ports Pty Ltd commercial ports.

Flinders Ports Pty Ltd increased prices for essential maritime services and pilotage services at a greater rate than the Adelaide consumer price index for March 2015–March 2016. The Commission received no complaints about the price increases. Flinders Ports Pty Ltd also advised the Commission that it consulted ports users before the 2016-17 price increases and users did not raise any concerns.

Ports pricing and access review 2017

The Maritime Services (Access) Act requires the Commission to review the South Australian ports Access Regime every five years.

The Commission commenced a 2017 Ports Pricing and Access Review in September 2016. It released the [draft report](#) in May 2017, finding the current Access Regime and Pricing Regime should continue for a further five years. The Commission will release the final report in the second half of 2017.

Section B: Reporting pursuant to other acts or regulation

Water third party access regime

This section meets the requirements of Part 9A of the Water Industry Act 2012, in relation to the Commission reporting annually to the Minister on the work it has carried out relating to its role under the third party access regime.

The Commission is the regulator for the South Australian water access regime as set out under Part 9A of the Water Industry Act 2012. The Commission provides an overall compliance and monitoring role, seeks to resolve an access dispute by conciliation, and determines whether a dispute should be referred to arbitration.

In 2016-17, 20 information kits were downloaded from SA Water's website but SA Water received no formal requests under the Water Industry Act. However, SA Water did enter into two commercial agreements with access seekers outside of the third party water access regime.

The Commission was not notified of any non-compliance or access disputes in 2016-17.

Commission's activities

During 2016-17, the Commission undertook the following activities:

- ▶ conducting information sessions with stakeholders to promote greater understanding of the third party access arrangements in the South Australian water sector
- ▶ consulting and engaging with key stakeholders to gain information on matters that could improve the effectiveness of the South Australian water access regime
- ▶ monitoring regulatory compliance to ensure the access provider:
 - has a sound and effective compliance program

- reports non-compliances of the type required to be reported during the relevant reporting period, and
- addresses the impact of such non-compliance on customers and other entities, and accounts for the implications for the effectiveness of the operator's compliance system.

The Commission will continue to administer the regime (for example, monitoring compliance and maintaining information on its website so interested parties can better understand the South Australian water access regime) and consider any reported access disputes or related inquiries that may arise.



Intrastate Rail

This section meets the requirements of section 9A of the Rail (Operations and Access) Act 1997 (ROA Act), in relation to the Commission forwarding to the Minister a report on the Commission's work carried out under the Act.

The Commission has regulated South Australia's intrastate rail access regime, as set out in the ROA Act, since March 2004.

The South Australian rail access regime expired on 31 October 2015, and subordinate legislation to continue applying the regime did not come into operation until 29 September 2016. So, this report covers only the period for which the rail access regime was in force during 2016-17 (29 September 2016 to 30 June 2017).

The Commission's administration of the regime has two major components. First, providing information and transparency through compliance monitoring and maintaining information on its website, and by considering any reported access disputes or related inquiries that may arise.

The Commission did not receive any notifications of non-compliance, access notifications or access disputes from 29 September 2016 to 30 June 2017.

The Rail Commissioner confirmed that it had no access agreements in place with any rail operators during the period, and that it maintained an information kit for any potential operators if access was requested.

Commission's activities

The Commission undertook the following activities between 29 September 2016 and 30 June 2017:

- ▶ Review of the South Australian rail access regime regulatory guidelines. The review focuses on ensuring the guidelines continue to provide effective protection to existing and prospective railway users, are clear, represent contemporary practice, and minimise costs. The Commission expects to finalise this review in the second half of 2017.

- ▶ Monitoring regulatory compliance to ensure a rail operator:
 - has a sound and effective compliance program
 - reports non-compliances of the type required to be reported during the relevant reporting period, and
 - addresses the impact of such non-compliance on customers and other entities, and accounts for the implications for the effectiveness of the operator's compliance system.

Financial information

The South Australian Government funds the Commission's rail regulatory activities. Table 7 summarises revenues and expenses for these activities for 29 September 2016 to 30 June 2017, together with comparative figures for the previous regulatory period.

The Commission reported a surplus for the period. Both revenue and expense amounts vary due to timing of regulatory reviews.

The Commission will continue to undertake its regulatory activities as efficiently and effectively as possible, and will not accumulate surpluses to unnecessary levels.

Table 7: Rail regulatory revenues and expenses

| | 29 September 2016 to 30 June 2017 \$'000 | 1 July 2015 to 30 October 2015 \$'000 |
|----------------------------|---|--|
| Opening surplus | 42 | 43 |
| Revenue | | |
| SA Government contribution | 215 | 170 |
| Total revenue | 215 | 170 |
| Expenses | | |
| Salaries and on-costs | 143 | 126 |
| Administration | 59 | 45 |
| Total expenses | 202 | 171 |
| Annual surplus/(deficit) | 13 | -1 |
| Closing surplus | 55 | 42 |

Note: Figures may not sum due to rounding.

Tarcoola–Darwin Railway

This section meets the requirements of Clause 7 of the AustralAsia Railway (Third Party Access) Code (**Code**) contained in the schedule of the AustralAsia Railway (Third Party Access) Act 1999, in relation to the Commission forwarding to the Minister a report on the Commission’s work carried out under the Act.

The access regime, as set out in the code, is intended to ensure that access to railway infrastructure services provided by a monopoly operator is available on reasonable commercial terms.

The Commission’s administration of the regime has two major components. First, providing information and transparency through compliance monitoring and maintaining information on its website, and second by considering any reported access disputes or related inquiries that may arise.

The Commission did not receive any notifications of non-compliance, access notifications or access disputes from GWA (North) Pty Ltd during 2016-17.

Commission’s activities

During 2016-17, the Commission undertook the following activities:

- ▶ Reviewing the Tarcoola–Darwin rail access regime regulatory guidelines. The review focuses on ensuring the guidelines continue to provide effective protection to existing and prospective railway users, are clear, represent contemporary practice, and minimise costs. The Commission expects to finalise this review in the second half of 2017.
- ▶ Monitoring regulatory compliance to ensure the rail operator:
 - has a sound and effective compliance program
 - reports non-compliances of the type required to be reported during the relevant reporting period, and
 - addresses the impact of such non-compliance on customers and other entities, and accounts for the implications for the effectiveness of the operator’s compliance system.

Financial information

The South Australian and Northern Territory governments fund the Commission’s Tarcoola-Darwin rail regulatory activities.

Table 8 summarises revenues and expenses for 2016-17, together with comparative figures for the previous year.

Table 8 shows a surplus for 2016-17. Both revenue and expense amounts vary due to timing of regulatory reviews.

Over time, funding is shared equally between the South Australian and Northern Territory governments. However, the funding contributions made by each government may differ in any one year. The Commission records each government’s contribution in a separate account. The Commission’s expenses are apportioned equally to each of these accounts.

The Commission will continue to undertake its regulatory activities as efficiently and effectively as possible, and will not accumulate surpluses to unnecessary levels.

Table 8: Rail regulatory revenues and expenses

| | 2016-17 \$'000 | 2015-16 \$'000 |
|----------------------------|-------------------|-------------------|
| Opening surplus | 52 | 65 |
| Revenue | | |
| SA Government contribution | 145 | 55 |
| NT Government contribution | 145 | 35 |
| Total revenue | 290 | 90 |
| Expenses | | |
| Salaries and on-costs | 162 | 78 |
| Administration | 67 | 26 |
| Total expenses | 229 | 104 |
| Annual surplus/(deficit) | 61 | -14 |
| Closing surplus | 113 | 52 |

Note: Figures may not sum due to rounding.

Appendix 1: Performance against Performance Plan 2016-17

The Commission's performance against its approved Performance Plan 2016-17 is summarised as follows, showing status of projects and ongoing work at 30 June 2017.

There were 102 projects listed in the Commission's Performance Plan 2016-17, 91 of which were completed at the end of the 2016-17 year. In addition, the Commission undertook another 10 projects that were not identified in the Performance Plan 2016-17, including significant inquiries and advice to Government. The Commission rescheduled non-statutory projects to accommodate those additional projects.

| Industry | Key initiative | Achievement |
|--|---|--|
| GOAL 1: We will establish consumer protection frameworks to promote the delivery of both service levels valued by consumers and efficient prices. | | |
|  | Make a Regulatory Determination for minor and intermediate water and sewerage retailers | In progress |
|  | Develop framework for economic regulation of SA Water from 2020 | In progress |
|  | Review security of supply standards for water in South Australia | No longer undertaking because it is expected to be addressed under the five-year review of the Water Industry Act 2012 |
|  | Finalise service standards for electricity transmission for 2018-2023 | Complete |
|  | Develop and publish South Australian Energy Retail Offer Prices – Ministerial Report 2016 to meet requirement of Electricity and Gas Acts | Complete |
|  | Review the need for ongoing regulation of the retailer solar feed-in tariff | Complete |
|  | Investigate and develop suitable regulatory frameworks for off-grid energy networks and providers | In progress |
|  | Review wind generation licensing principles (inquiry into the licensing conditions for generators) | In progress (as at 30 June, completed August 2017) |
|  | Publish annual report on Commission's activities related to administration of the Tarcoola–Darwin rail access regime | Complete |
|  | Review Tarcoola–Darwin rail guidelines | In progress |
|  | Determine rate of return to be used for arbitration purposes | In progress |
|  | Publish annual report on Commission's activities related to administration of the intrastate rail access regime | Complete |

| Industry | Key initiative | Achievement |
|---|--|-------------|
|  | Review the intrastate rail Information Kit to ensure that it remains up to date | In progress |
|  | Monitor ports prices and publish 2016 ports price monitoring report | Complete |
| GOAL 2: We will keep regulated businesses accountable by monitoring and reporting on service standards and licence requirements. | | |
|  | Develop and publish water regulatory performance reports | Complete |
|  | Review and streamline the framework for regulatory reporting for SA Water | Complete |
|  | Review 2016-17 pricing policy statements submitted by minor and intermediate retailers for compliance against the 2013 minor and intermediate retailer Price Determination | Complete |
|  | Develop and publish annual performance reports and significant event performance reports | Complete |
|  | Conduct a governance review of regulatory scheme (Legislative compliance framework) | Complete |
|  | Administer Power Line Environment Committee Program, and publish the Power Line Environment Committee annual report | Complete |
|  | Determine allocation of 2017 REES targets and publish an annual report on outcomes | Complete |
|  | Review and assess retailer REES compliance plans and information | Complete |
|  | Review compliance reporting guidelines in all industries | In progress |
|  | Conduct a review of the administration of relevant acts, regulations and statutory instruments | In progress |
| GOAL 3: We will engage genuinely with our stakeholders to achieve the best possible decisions and build understanding of economic and regulatory issues. | | |
|  | Enhance the Commission website to improve retailer and consumer information | Complete |
|  | Undertake a stakeholder survey | Complete |
|  | Review the Commission's Charter of Consultation and Regulatory Practice to ensure the Commission's regulatory processes, including engagement processes, best promote its objectives | In progress |

| Industry | Key initiative | Achievement |
|--|--|-------------|
| GOAL 4: We will add value to South Australia by delivering impartial, credible and robust regulatory and economic advice. | | |
|  | Review the nature, scope and potential developments in disruptive technologies in the electricity sector | Complete |
|  | Ports Price and Access Review – pursuant to the Maritime Services (Access) Act 2000, review the pricing and access regimes that apply to proclaimed ports in South Australia | In progress |
|  | Conduct Part 7 ESC Act inquiries as referred from the South Australian Government (refer to Inquiries section of this report) | Complete |
|  | Provide advice to the South Australian Government under ESC Act as referred from the South Australian Government | Complete |
|  | Implement, with ongoing development, a formal 'Better Regulation' framework to govern the Commission's approach to developing, maintaining and applying regulation | Complete |
| People, culture and systems | | |
|  | Develop information system/s and improved business processes for efficiencies in capturing, reporting and processing information from regulated entities | Complete |
|  | Review productivity and efficiency of Commission operations | Complete |
|  | Publish Commission's annual report 2015-16 | Complete |
|  | Undertake end of year financial review and finalisation of accounts including Auditor-General review | Complete |
|  | Develop Workforce Plan 2016-17 | Complete |
|  | Develop the Performance Plan and budget for 2017-18 | Complete |
|  | Develop and publish Strategic Plan 2017-2020 | Complete |
|  | Conduct biannual review of Enterprise Risk Register | Complete |

Appendix 2: Audited financial statements 2016-17

Essential Services Commission

FINANCIAL STATEMENTS

For the year ended 30 June 2017

Certification of the Financial Statements

We certify that the:

- financial statements of the Essential Services Commission:
 - are in accordance with the accounts and records of the Essential Services Commission;
 - comply with relevant Treasurer's instructions;
 - comply with relevant accounting standards; and
 - present a true and fair view of the financial position of the Essential Services Commission at the end of the 30 June 2017 financial year and the results of its operations and cash flows for the financial year.
- internal controls employed by the Essential Services Commission over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the financial year.

Signed in accordance with a resolution of the Essential Services Commission.



Mr Brett Rowse

CHAIRPERSON

27 September 2017



Mr Adam Wilson

CHIEF EXECUTIVE OFFICER

27 September 2017



Mr Nick Mahon

MANAGER, FINANCE AND INFORMATION TECHNOLOGY

27 September 2017

Statement Of Comprehensive Income
 For the year ended 30 June 2017

| | Note | 2017 \$'000 | 2016 \$'000 |
|--|------|----------------|----------------|
| Expenses | | | |
| Employee benefits expense | 5 | 3 441 | 3 584 |
| Supplies and services | 6 | 1 389 | 1 585 |
| Refunds | 7 | 58 | 45 |
| Depreciation and amortisation expense | 8 | 142 | 100 |
| Other expenses | 9 | 39 | 1 |
| Total expenses | | 5 069 | 5 315 |
| Income | | | |
| Revenue from licence and administration fees | 10 | 4 733 | 3 509 |
| Contributions from SA Government | 11 | 680 | 330 |
| Revenue from services | 12 | 274 | 36 |
| Other income | 13 | 8 | 1 |
| Total Income | | 5 695 | 3 876 |
| Net result | | 626 | (1 439) |
| Total comprehensive result | | 626 | (1 439) |

The net profit and total comprehensive result are attributable to the South Australian Government as owner.

The above statement should be read in conjunction with the accompanying notes.

Statement Of Financial Position
As at 30 June 2017

| | Note | 2017 \$'000 | 2016 \$'000 |
|--------------------------------------|------|----------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | | 8 374 | 7 881 |
| Receivables | 14 | 1 172 | 1 026 |
| Total current assets | | 9 546 | 8 907 |
| Non-current assets | | | |
| Property, plant and equipment | 15 | 331 | 391 |
| Intangible assets | 16 | 312 | 356 |
| Total non-current assets | | 643 | 747 |
| Total assets | | 10 189 | 9 654 |
| Current liabilities | | | |
| Payables | 17 | 225 | 127 |
| Employee benefits | 18 | 315 | 262 |
| Provisions | 19 | 1 | 1 |
| Other liabilities | 20 | 22 | 149 |
| Total current liabilities | | 563 | 539 |
| Non-current liabilities | | | |
| Payables | 17 | 65 | 75 |
| Employee benefits | 18 | 708 | 812 |
| Provisions | 19 | 3 | 4 |
| Total non-current liabilities | | 776 | 891 |
| Total liabilities | | 1 339 | 1 430 |
| Net assets | | 8 850 | 8 224 |
| Equity | | | |
| Retained earnings | | 8 850 | 8 224 |
| Total equity | | 8 850 | 8 224 |

Total equity is attributed to the South Australian Government as owner.

| | |
|--|---------|
| Unrecognised contractual commitments | Note 21 |
| Contingent assets and contingent liabilities | Note 22 |

The above statement should be read in conjunction with the accompanying notes.

Statement Of Changes in Equity
for the year ended 30 June 2017

| | Retained Earnings \$'000 |
|---|---|
| Balance at 30 June 2015 | 9 663 |
| Net result for 2015-16 | (1 439) |
| Total comprehensive result for 2015-16 | <u>(1 439)</u> |
| Balance at 30 June 2016 | <u>8 224</u> |
| Net result for 2016-17 | 626 |
| Total comprehensive result for 2016-17 | <u>626</u> |
| Balance at 30 June 2017 | <u><u>8 850</u></u> |

All changes in equity are attributed to the South Australian Government as owner.

The above statement should be read in conjunction with the accompanying notes.

Statement Of Cash Flows
for the year ended 30 June 2017

| | 2017 | 2016 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| Cash flows from operating activities | | |
| Cash outflows: | | |
| Employee benefits payments | (3 500) | (3 415) |
| Payments for supplies and services | (1 280) | (1 645) |
| Payments for refunds | (58) | (45) |
| Payments for paid parental leave scheme | (4) | (26) |
| Cash used in operations | (4 842) | (5 131) |
| Cash inflows: | | |
| Licence and administration fees | 4 410 | 3 678 |
| Receipts from SA Government | 680 | 330 |
| Other services | 274 | 36 |
| Receipts for paid parental leave scheme | 1 | 26 |
| Other receipts | 8 | 1 |
| Cash generated from operations | 5 373 | 4 071 |
| Net cash provided by operating activities | 531 | (1 060) |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | - | (14) |
| Purchase of intangible assets | (38) | (58) |
| Cash used in investing activities | (38) | (72) |
| Net cash provided by / (used in) investing activities | (38) | (72) |
| Net increase / (decrease) in cash equivalents | 493 | (1 132) |
| Cash and cash equivalents at 1 July | 7 881 | 9 013 |
| Cash and cash equivalents at 30 June | 8 374 | 7 881 |

The above statement should be read in conjunction with the accompanying notes.

Notes To And Forming Part Of The Financial Statements

Note 1 Objectives of the Essential Services Commission

Note 2 Significant accounting policies

Note 3 New and revised accounting standards and policies

Note 4 Activities of the Commission

Expense Notes

Note 5 Employee benefits expense

Note 6 Supplies and services

Note 7 Refunds

Note 8 Depreciation and amortisation expense

Note 9 Other expenses

Income Notes

Note 10 Revenue from licence and administration fees

Note 11 Contributions from South Australian Government

Note 12 Revenue from services

Note 13 Other income

Asset Notes

Note 14 Receivables

Note 15 Property, plant and equipment

Note 16 Intangible assets

Liability Notes

Note 17 Payables

Note 18 Employee benefits

Note 19 Provisions

Note 20 Other liabilities

Other Notes

Note 21 Unrecognised contractual commitments

Note 22 Contingent assets and contingent liabilities

Note 23 Remuneration of Commission and committee members

Note 24 Related Party Transactions

Note 25 Financial risk management / Financial instructions

Note 26 Events after the reporting period

Note 27 Administered items

Notes To And Forming Part Of The Financial Statements

Note 1. Objectives of the Essential Services Commission

The Essential Services Commission (Commission) is a statutory authority established as an independent economic regulator and advisory body under the Essential Services Commission Act 2002 (ESC Act).

The Commission has economic regulatory responsibility in the water and sewerage, electricity, gas, maritime and rail industries, conducts formal public inquiries and provides advice to the South Australian Government on economic and regulatory matters. The ESC Act and various industry Acts together provide the Commission with those regulatory and advisory powers and functions.

Under the ESC Act the Commission has the primary objective of the '...protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services'.

The ESC Act sets out seven further factors which the Commission must have regard to in performing its functions, being:

- promoting competitive and fair market conduct
- preventing misuse of monopoly or market power
- facilitating entry into relevant markets
- promoting economic efficiency
- ensuring consumers benefit from competition and efficiency
- facilitating maintenance of the financial viability of regulated industries and the incentive for long term investment, and
- promoting consistency in regulation with other jurisdictions.

The Commission has two broad advisory functions. The first is to provide advice to the Treasurer, on request, in relation to any matter (section 5(f) of the ESC Act). In that capacity the Commission acts as a consultant to the South Australian Government, providing independent advice on economic and regulatory matters.

The second is to conduct formal public inquiries (Part 7 of the ESC Act). Such inquiries can be initiated by the Commission (into any matters within its regulatory scope), by the Treasurer (into any matter) or by an industry Minister (into any matter concerning a regulated industry).

Note 2. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in compliance with section 23 of the Public Finance and Audit Act 1987 (PFA Act). The financial statements are general purpose financial statements. The accounts have been prepared in accordance with relevant Australian Accounting Standards (Reduced Disclosure Requirements) and comply with Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the PFA Act.

The Commission has applied Australian Accounting Standards for not-for-profit entities, as the Commission is a not-for-profit entity.

(b) Basis of preparation

The preparation of the financial statements requires:

- The use of certain accounting estimates and requires the exercise of judgement in the process of applying the Commission's accounting policies. Areas involving a higher degree of judgement or where assumptions and estimates are significant to the financial statements are outlined in the applicable notes.

Notes To And Forming Part Of The Financial Statements

- That accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported.
- Compliance with Accounting Policy Statements issued pursuant to section 41 of the PFA Act 1987. In the interest of public accountability and transparency the accounting policy statements require the following note disclosures, which have been included in this financial report:
 - a) Expenses incurred as a result of engaging consultants.
 - b) Employees whose normal remuneration is equal to or greater than the base executive remuneration level (within \$10 000 bandwidths) and the aggregate of the remuneration paid or payable or otherwise made available, directly or indirectly by the entity to those employees.
 - c) Commission and committee member and remuneration information, where a Commission and committee member is entitled to receive income from membership other than a direct out-of-pocket reimbursement.

The financial statements have been prepared based on a twelve month period and are presented in Australian currency.

(c) Reporting entity

The financial statements and accompanying notes cover the Commission as an individual reporting entity. The Commission is a statutory authority of the State of South Australia, established pursuant to the ESC Act.

The Commission utilises the banking arrangements of the Department of Treasury and Finance under a Service Level Agreement. A non-interest bearing Special Deposit Account (SDA) entitled 'Essential Services Commission Operating Account', established by the Treasurer under the PFA Act, is used for the purpose of recording all of the financial transactions of the Commission, including the collection of licence and administration fees.

(d) Administered items

Section 22 of the ESC Act requires that, except as otherwise directed by the Treasurer, fees or other amounts received by the Commission under this or any other Act will be paid into the Consolidated Account. All revenues from licence and administration fees are held in the SDA, except for amounts approved by the Treasurer for transfer to the Consolidated Account.

The amounts transferred to the Consolidated Account are administered items held on behalf of the South Australian Government. The Commission is accountable for the collection and banking of those administered items, but does not have the discretion to deploy the resources for the achievement of the Commission's objectives. The receipt of these administered items is not recognised as revenue. Instead, the subsequent transfer of these items to the Consolidated Account is disclosed in Note 10 and Note 27. The accrual basis of accounting has been used in accounting for administered items.

(e) Comparative information

The presentation and classification of items in the financial statements are consistent with prior periods, except where specific accounting standards and / or accounting policy statements have required a change.

The Commission has not applied any accounting policy changes retrospectively for the financial year 2017.

Restated comparative amounts do not replace the original financial statements for the preceding period.

(f) Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000).

Notes To And Forming Part Of The Financial Statements

(g) Taxation

The Commission is not subject to income tax. The Commission is liable for payroll tax, fringe benefits tax and goods and services tax (GST).

Income, expenses, assets and liabilities are recognised net of the amount of GST except when the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable.

GST amounts payable and recoverable from the Australian Taxation Office are managed via the Department of Treasury and Finance under the Commission's existing Service Level Agreement and are not reported in these statements for the year ended 30 June 2017.

(h) Events after the reporting period

Adjustments are made to amounts recognised in the financial statements, where an event occurs after 30 June and before the date the financial statements are authorised for issue, where those events provide information about conditions that existed at 30 June.

Note disclosure is made about events between 30 June and the date the financial statements are authorised for issue where the events relate to a condition which arose after 30 June and which may have a material impact on the results of subsequent years.

(i) Current and non-current classification

Assets and liabilities that are to be sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting date have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

(j) Non-current assets

Acquisition and recognition

Non-current assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition. Non-current assets are subsequently measured at fair value after allowing for accumulated depreciation.

Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Statement of Financial Position.

All non-current tangible and intangible assets with a value equal to or in excess of \$10 000 are capitalised.

Depreciation and amortisation

All non-current assets having limited useful life are systematically depreciated over their useful lives in a manner that reflects the consumption of their service potential. Amortisation is used in relation to intangible assets such as software, while depreciation is applied to tangible assets such as plant and equipment.

Assets' residual values, useful lives and amortisation methods are reviewed and adjusted if appropriate, on an annual basis. No adjustments were made during the reporting period.

Depreciation/amortisation is calculated on a straight line basis over the estimated useful life of the following classes of assets as follows:

Notes To And Forming Part Of The Financial Statements

| Class of asset | Depreciation / amortisation method | Useful life |
|--------------------------|---|---------------------------------------|
| Leasehold improvements | Straight line | Remaining life of expected lease term |
| Furniture and fittings | Straight line | 3 - 10 years |
| Office equipment – IT | Straight line | 3 - 5 years |
| Office equipment - Other | Straight line | 3 - 5 years |
| Intangibles | Straight line | 3 - 6 years |

Revaluation of non-current assets

All non-current assets are valued at fair value and revaluation of non-current assets or group of assets is only performed when its fair value at the time of acquisition is greater than \$1 million and estimated useful life is greater than three years.

Impairment

The Commission holds its property, plant and equipment and intangible assets for their service potential (value in use). All non-current tangible assets are valued at fair value.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are measured at cost and are tested for indications of impairment at each reporting date. Following initial recognition, intangible assets are carried at cost, less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. The Commission only has intangible assets with finite lives. The amortisation period and the amortisation method for intangible assets are reviewed on an annual basis.

The acquisition or internal development of software is capitalised only when the expenditure meets the definition criteria (identifiability, control and the existence of future economic benefits) and recognition criteria (probability of future economic benefits and cost can be reliably measured) and when the amount of expenditure is greater than or equal to \$10 000.

Fair Value Measurement - Non-financial assets

The carrying amount of non-financial assets with a fair value at the time of acquisition that was less than \$1 million or estimated useful life that was less than three years are deemed to approximate fair value.

(k) Liabilities

Leases

Operating leases

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. The straight-line basis is representative of the pattern of benefits derived from the leased assets.

Employee Benefits

Employee benefits accrue for employees as a result of services provided up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term employee benefits are measured at their nominal amounts.

Notes To And Forming Part Of The Financial Statements

Salaries and wages, annual leave, skills and experience retention leave and sick leave.

The liability for salary and wages is measured as the amount unpaid at the reporting date at remuneration rates current at reporting date.

The annual leave liability and the skills and experience retention leave liability are expected to be payable within twelve months and are measured at the undiscounted amount expected to be paid.

No provision has been made for sick leave, as all sick leave is non-vesting and it is assumed that the average sick leave to be taken in future years will be less than the annual entitlement.

Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

The estimated liability for long service leave is based on actuarial assumptions over expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data over South Australian Government entities.

Expected future payments are discounted using market yields at the end of the reporting period on Commonwealth government bonds with durations that match, as closely as possible to, the estimated future cash outflows.

The current/non-current classification of the Commission's long service leave liabilities has been calculated based on historical usage patterns. The estimation of short-term and long-term long service leave liabilities is based on the Commission's past experience.

(I) Unrecognised contractual commitments and contingent assets and liabilities

Commitments include operating, capital and outsourcing commitments arising from contractual or statutory sources and are disclosed at their nominal value.

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

Unrecognised contractual commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the Australian Taxation Office. If GST is not payable to, or recoverable from, the Australian Taxation Office, the commitments and contingencies are disclosed on a gross basis.

Note 3. New and revised accounting standards and policies

The Commission did not voluntarily change any of its accounting policies for the 2017 financial year.

Notes To And Forming Part Of The Financial Statements

Note 4. Activities of the Commission

The ESC Act specifies a general set of functions for the Commission. However, the specific roles of the Commission are assigned to it under industry legislation. The following table summarises such roles in financial year 2017.

| Legislation | Regulatory functions |
|---|---|
| Water Industry Act 2012 | Water and sewerage retail service providers: <ul style="list-style-type: none"> • Licensing • Retail price regulation • Consumer protection • Service/reliability standard setting • Performance monitoring and reporting Third Party Access Regime regulator |
| Electricity Act 1996 | Electricity retail operations: <ul style="list-style-type: none"> • Monitoring and, if necessary, determination of the retailer Solar Photovoltaic Feed-in Tariff • Preparation and publication of Ministerial Energy Retail Pricing reports • Retailer Energy Efficiency Scheme administration Electricity generation, transmission, distribution and off-grid retailers: <ul style="list-style-type: none"> • Licensing • Network service/reliability standard setting • Performance monitoring and reporting |
| Gas Act 1997 | Gas retail operations: <ul style="list-style-type: none"> • Preparation and publication of Ministerial Energy Retail Pricing reports • Retailer Energy Efficiency Scheme administration Licensing of retail and distribution LPG gas operations Licensing of natural gas operations, standard setting, performance monitoring and reporting |
| AustralAsia Railway (Third Party Access) Act 1999; Railway (Operations and Access) Act 1997 | Tarcoola–Darwin railway regulator under the AustralAsia (Third Party Access) Code Intrastate rail lines access regulator |
| Maritime Services (Access) Act 2000 | Ports services pricing and access regulator |

Notes To And Forming Part Of The Financial Statements

Note 5. Employee benefits

| | 2017 | 2016 |
|--|--------------|--------------|
| | \$'000 | \$'000 |
| Salaries and wages | 2 450 | 2 453 |
| Long service leave | 35 | 183 |
| Annual leave | 218 | 219 |
| Employment on-costs - superannuation | 283 | 289 |
| Employment on-costs - other | 133 | 129 |
| Commission and committee fees* | 273 | 260 |
| Other employee related expenses | 49 | 51 |
| Total employee benefit expenses | 3 441 | 3 584 |

No employees received a targeted voluntary separation package during the reporting period.

* Commission and committee fees only include direct payment to members. Superannuation payments including salary sacrifice payments are included under Employment on costs - superannuation. See Note 23 for details of remuneration for Commission and committee members.

Remuneration of employees

| | 2017 | 2016 |
|---|----------|----------|
| | Number | Number |
| The number of employees whose remuneration received or receivable falls within the following bands: | | |
| \$145 000 - \$147 000* | na | 1 |
| \$147 001 - \$157 000 | 2 | 1 |
| \$197 001 - \$207 000 | - | 1 |
| \$207 001 - \$217 000 | 1 | 1 |
| \$217 001 - \$227 000 | 1 | - |
| \$307 001 - \$317 000 | - | 1 |
| \$317 001 - \$327 000 | 1 | - |
| Total | 5 | 5 |

*This band has been included for the purposes of reporting comparative figures based on the executive base level remuneration rate for 2016-17.

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year, of which 4(4) are executive and 1(1) are non executive staff. Remuneration of employees reflects all costs of employment including; salaries and wages, payment in lieu of leave, superannuation contributions, fringe benefits tax and salary sacrifice benefits. The total remuneration received by these employees for the year was \$1 057 000 (\$1 021 000).

Note 6. Supplies and services

| | 2017 | 2016 |
|------------------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Accommodation | 458 | 444 |
| General administration | 617 | 621 |
| Information technology charges | 174 | 183 |
| Consultants | 125 | 329 |
| Contractors | 12 | - |
| Other supplies and services | 3 | 8 |
| Total supplies and services | 1 389 | 1 585 |

Total supplies and services includes GST where the amount of GST incurred by the Commission as a purchaser is not recoverable from the Australian Taxation Office.

Notes To And Forming Part Of The Financial Statements

Consultants

The number and dollar amount of consultancies paid or payable (included in Consultants expense shown above) fell within the following bands:

| | 2017 \$'000 | 2017 Number | 2016 \$'000 | 2016 Number |
|---|----------------|----------------|----------------|----------------|
| Below \$10 000 | 17 | 2 | 21 | 3 |
| Above \$10 000 | 108 | 5 | 308 | 6 |
| Total paid or payable to consultants | 125 | 7 | 329 | 9 |

Note 7. Refunds

| | 2017 \$'000 | 2016 \$'000 |
|--------------------------------|----------------|----------------|
| Refunds of administration fees | 58 | 45 |
| Total refunds | 58 | 45 |

Note 8. Depreciation and amortisation expense

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Depreciation and amortisation | | |
| Office equipment | - | 2 |
| Building fit-out | 60 | 58 |
| Intangible assets | 82 | 40 |
| Total depreciation and amortisation expense | 142 | 100 |

Note 9. Other expenses

| | 2017 \$'000 | 2016 \$'000 |
|-------------------------------|----------------|----------------|
| Allowances for doubtful debts | 39 | 1 |
| Total other expenses | 39 | 1 |

Note 10. Revenue from licence and administration fees

| | Electricity \$'000 | Gas \$'000 | Water \$'000 | 2017 \$'000 | 2016 \$'000 |
|----------------------|-----------------------|---------------|-----------------|----------------|----------------|
| Licence fees* | 4 019 | 2 993 | 9 878 | 16 890 | 10 256 |
| Administration fees | 617 | 143 | - | 760 | 782 |
| Administered items** | (5 018) | (2 111) | (5 788) | (12 917) | (7 529) |
| Total fees | (382) | 1 025 | 4 090 | 4 733 | 3 509 |

* From 1 July 2016 the annual water licence fee set by the Treasurer for licences with greater than 50 000 connections increased by \$6 400 000 to \$9 500 000.

** Refer to Note 27 Administered items.

Income is recognised to the extent that it is probable that the flow of economic benefits to the Commission will occur and can be reliably measured. Income has been aggregated according to its nature, and has not been offset unless required or permitted by a specific standard, or where offsetting reflects the substance of the transaction or other event.

Notes To And Forming Part Of The Financial Statements

Licence fees are measured at the fair value of consideration received or receivable. Gross licence fee revenue is set by the Minister in accordance with sections under the relevant Acts. Licence fee revenue is recognised when it is received or receivable. Unearned revenue is recognised where cash is received by the Commission for licence fees prior to the date of renewal of the relevant licence.

Administration fees are measured at the fair value of consideration received or receivable. Gross administration fee revenue represents a reasonable contribution towards administration costs and is calculated in accordance with regulations under the relevant Acts. Administration fee revenue is recognised when it is received or receivable.

Note 11. Contributions from South Australian Government

| | 2017 | 2016 |
|---|------------|------------|
| | \$'000 | \$'000 |
| Recurrent contribution from South Australian Government | 680 | 330 |
| Total contributions from South Australian Government | 680 | 330 |

Contributions are recognised as revenues when the Commission obtains control over the funding. Control over Contributions is normally obtained upon receipt.

Note 12. Revenue from services

| | 2017 | 2016 |
|--|------------|-----------|
| | \$'000 | \$'000 |
| Contribution to rail regulatory costs by Northern Territory Government | 145 | 36 |
| Contribution by Department of Planning, Transport and Infrastructure* | 129 | - |
| Total revenue from services | 274 | 36 |

* Funding for an Inquiry into the South Australian bulk grain export supply chain as requested by the Treasurer of South Australia.

Note 13. Other income

| | 2017 | 2016 |
|---------------------------|----------|----------|
| | \$'000 | \$'000 |
| Other income | 8 | 1 |
| Total other income | 8 | 1 |

Note 14. Receivables

| | 2017 | 2016 |
|-----------------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Current | | |
| Receivables | 978 | 833 |
| Less allowance for doubtful debts | (39) | (1) |
| Total receivables | 939 | 832 |
| Accrued revenue | 214 | 164 |
| Prepayments | 19 | 30 |
| Total current receivables | 1 172 | 1 026 |
| Total receivables | 1 172 | 1 026 |

Receivables arise in the normal course of selling goods and services to other government agencies and to the public. Receivables are normally settled within 30 days after the issue of an invoice. Receivables, prepayments and accrued revenues are non-interest bearing. Collectability of receivables is reviewed on an ongoing basis. An allowance for

Notes To And Forming Part Of The Financial Statements

doubtful debts is raised when there is objective evidence that the Commission will not be able to collect the debt. An allowance for doubtful debts of \$39 000 was established in 2017. In 2016, the value of debts written off was \$1 000.

Note 15. Property, plant and equipment

| | 2017 \$'000 | 2016 \$'000 |
|---|-------------------|-------------------|
| Office equipment | | |
| Office equipment at cost (deemed fair value) | - | 20 |
| Accumulated depreciation | - | (20) |
| Total office equipment | <u>-</u> | <u>-</u> |
| Buildings fit-outs | | |
| Building fit-outs at cost (deemed fair value) | 566 | 566 |
| Accumulated depreciation | (235) | (175) |
| Total buildings fit-outs | <u>331</u> | <u>391</u> |
| Total property, plant and equipment | <u><u>331</u></u> | <u><u>391</u></u> |

Carrying amount of property plant and equipment

All items of property, plant and equipment had a fair value at the time of acquisition that was less than \$1 million or had an estimated useful life that was less than three years, and have not been revalued in accordance with Accounting Policy Framework III. The carrying value of these items are deemed to approximate fair value.

Impairment

There were no indications of impairment on property, plant and equipment at 30 June 2017.

Reconciliation of property, plant and equipment

The following table shows the movement of property, plant and equipment for the year ended 30 June 2017.

| | Building fit-outs \$'000 | Total \$'000 |
|--|-----------------------------|-----------------|
| Carrying amount at the beginning of the period | 391 | 391 |
| Depreciation expense | (60) | (60) |
| Carrying amount at 30 June | <u>331</u> | <u>331</u> |

Note 16. Intangible assets

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Internally developed software | | |
| Internally developed computer software at cost (deemed fair value) | 240 | 240 |
| Accumulated amortisation | (100) | (60) |
| Total internally generated software | <u>140</u> | <u>180</u> |
| Externally developed software | | |
| Externally developed computer software at cost (deemed fair value) | 184 | - |
| Accumulated amortisation | (42) | - |
| Total externally developed software | <u>142</u> | <u>-</u> |

Notes To And Forming Part Of The Financial Statements

Work in progress

| | | |
|--------------------------------|------------|------------|
| At cost (deemed fair value) | 30 | 176 |
| Total work in progress | 30 | 176 |
| Total intangible assets | 312 | 356 |

The internally developed computer software relates to the Commission's Retailer Energy Efficiency Scheme reporting system with a remaining useful life of 3.5 years and carrying amount of \$140 000 (\$180 000).

Impairment

There were no indications of impairment of intangible assets at 30 June 2017.

Reconciliation of intangible assets

The following table shows the movement of intangible assets for the year ended 30 June 2017.

| | Internally developed software \$'000 | Externally developed software \$'000 | Work in progress \$'000 | Total \$'000 |
|--|---|---|-------------------------------|-----------------|
| Carrying amount at the beginning of period | 180 | - | 176 | 356 |
| Additions | - | - | 38 | 38 |
| Transfers in | - | 184 | - | 184 |
| Transfers out | - | - | (184) | (184) |
| Amortisation expense | (40) | (42) | - | (82) |
| Carrying amount at 30 June | 140 | 142 | 30 | 312 |

Note 17. Payables

| | 2017 \$'000 | 2016 \$'000 |
|-----------------------------------|----------------|----------------|
| Current | | |
| Creditors and accrued expenses | 180 | 85 |
| Employment on-costs* | 45 | 39 |
| Paid parental leave scheme | - | 3 |
| Total current payables | 225 | 127 |
| Non-current | | |
| Employment on-costs | 65 | 75 |
| Total non-current payables | 65 | 75 |
| Total payables | 290 | 202 |

* Employment on-costs include payroll tax, WorkCover levies and superannuation contributions. The Commission makes contributions to State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur.

Based on an actuarial assessment performed by the Department of Treasury and Finance, the percentage of the proportion of long service leave taken as leave remains unchanged from the 30 June 2016 percentage rate of 40% and the average factor for the calculation of the employer superannuation on-costs has changed from the 2016 rate 10.2% to 10.1%. These rates are used in the employment on-cost calculation. The net financial effect of the change on employment on-costs and employee benefit expense is immaterial.

Notes To And Forming Part Of The Financial Statements

The Paid Parental Leave Scheme payable represents amounts which the Commission has received from the Commonwealth Government to forward onto eligible employees via the Commission's standard payroll processes. The Commission acts as a conduit through which the payment to eligible employees is made on behalf of the Family Assistance Office.

Under the Payroll Tax Act 2010, the payroll tax rate remained at 4.95% in 2017. The rate is used in the payroll tax calculation for long service leave and annual leave.

Payables are measured at nominal amounts. Creditor and accruals are raised for all amounts owing but unpaid. Sundry creditors are normally settled within 30 days from the date the invoice is first received.

Note 18. Employee benefits

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Current | | |
| Accrued salaries and wages | 59 | 41 |
| Annual leave | 204 | 196 |
| Long service leave | 52 | 25 |
| Total current employee benefits | 315 | 262 |
| Non-current | | |
| Long service leave | 708 | 812 |
| Total non-current employee benefits | 708 | 812 |
| Total employee benefits | 1 023 | 1 074 |

The Commission's long service leave liability was estimated in accordance with AASB 119 Employee Benefits, using assumptions based on employee experience from a range of similar South Australian government entities.

The actuarial assessment performed by the Department of Treasury and Finance left the salary inflation rate at 4% for long service leave liability and 3% for annual leave and skills, experience and retention leave liability. As a result, there is no net financial effect resulting from changes in the salary inflation rate.

AASB 119 Employee Benefits requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Commonwealth Government bonds has increased from 2% (2016) to 2.5% (2017).

This change in bond yield resulted in a decrease of \$33 408 in the reported long service leave liability.

Note 19. Provisions

| | 2017 \$'000 | 2016 \$'000 |
|-------------------------------------|----------------|----------------|
| Current | | |
| Workers compensation | 1 | 1 |
| Total current provisions | 1 | 1 |
| Non-current | | |
| Workers compensation | 3 | 4 |
| Total non-current provisions | 3 | 4 |
| Total provisions | 4 | 5 |

Notes To And Forming Part Of The Financial Statements

Note 20. Other liabilities

| | 2017 \$'000 | 2016 \$'000 |
|--|------------------|-------------------|
| Current | | |
| Unearned revenue | 22 | 149 |
| Total current other liabilities | <u>22</u> | <u>149</u> |
| | | |
| Total other liabilities | <u><u>22</u></u> | <u><u>149</u></u> |

Unearned revenue is recognised where cash is received by the Commission for licence and administration fees prior to the date of renewal.

Note 21. Unrecognised contractual commitments

(a) Operating lease commitments

The Commission's operating leases are for office accommodation and motor vehicles. The accommodation lease is non-cancellable with the option to renew.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

| | 2017 \$'000 | 2016 \$'000 |
|---|---------------------|-------------------|
| No later than one year | 373 | 434 |
| Later than one year but not later than five years | 1 591 | 206 |
| Later than five years | 192 | - |
| Total operating lease commitments | <u><u>2 156</u></u> | <u><u>640</u></u> |

(b) Expenditure commitments

Commitments for the payment of consultant contracts in existence at the reporting date but not recognised as liabilities are payable as follows:

| | 2017 \$'000 | 2016 \$'000 |
|--------------------------------|------------------|------------------|
| No later than one year | 40 | 28 |
| Total other commitments | <u><u>40</u></u> | <u><u>28</u></u> |

Note 22. Contingent assets and contingent liabilities

Contingent assets

The Commission is not aware of any material contingent assets in existence as at 30 June 2017.

Contingent liabilities

The Commission is not aware of any material contingent liabilities in existence as at 30 June 2017.

Notes To And Forming Part Of The Financial Statements

Note 23. Remuneration of Commission and committee members

Members that were entitled to receive remuneration (directly and indirectly) for membership during the 2017 financial year were:

Essential Services Commission

Mr Brett Rowse (Chairperson) (Appointment commenced 4 July 2016)
 Dr Lynne Williams (Acting Chairperson)
 Mr Geoff Knight
 Ms June Roache
 Professor David Round

Consumer Advisory Committee

Mr Brett Rowse (Chairperson)**
 Ms Elaine Attwood
 Mr Sandy Canale
 Mr Mark Henley
 Mr David Hossen (Appointment concluded 30 June 2017)
 Mr Andrew McKenna
 Ms Jane Mussared
 Ms Julia Winefield (Appointment commenced 20 September 2016 / Appointment concluded 30 June 2017)
 Mr Ross Womersley

Power Line Environment Committee

Hon Rosemary Crowley (Chairperson) (Appointment concluded 4 March 2017)
 Mr Kevin Hamilton (Chairperson)
 Ms Pam Andritsakis (Appointment commenced 5 April 2017)
 Mr Lachlan Clyne (Appointment concluded 4 March 2017)
 Ms Angela Crimes* (Appointment commenced 5 March 2017)
 Ms Joanne Davidson* (Appointment commenced 5 March 2017)
 Mr Alex Duerden*
 Ms Diana Harvey (Appointment concluded 4 March 2017)
 Ms Margaret Lee
 Mr Mike Magin
 Mr Kim Steinle (Appointment commenced 5 March 2017)
 Mr Tim Wilson* (Appointment concluded 4 March 2017)

| | 2017 | 2016 |
|---|-----------|-----------|
| | Number of | Number of |
| | Members | Members |
| The number of members whose remuneration received or receivable falls within the following bands: | | |
| \$0 - \$9 999 | 20 | 18 |
| \$40 000 - \$49 999 | - | 1 |
| \$50 000 - \$59 999 | 3 | 3 |
| \$60 000 - \$69 999 | 2 | 1 |
| Total number of Commission and committee members | 25 | 23 |

Remuneration of members reflects all costs of performing duties including fees, superannuation contributions and salary sacrifice arrangements. The total remuneration received or receivable by members was \$297 762 (\$283 383).

Notes To And Forming Part Of The Financial Statements

Unless otherwise disclosed, transactions between members are on conditions no more favourable than those which it is reasonable to expect the entity would have adopted if dealing with the related party at arm's length in the same circumstances.

* In accordance with the Department of the Premier and Cabinet Circular No. 016, South Australian Government employees did not receive any remuneration for South Australian Government board / committee duties during the financial year.

** No remuneration was received by Mr Brett Rowse in the role of Chairperson of the Consumer Advisory Committee.

Note 24. Related party transactions

Related parties of the Commission include all key management personnel and their close family members as defined in AASB 124 Related Party Disclosures.

Key management personnel

Key management personnel of the Commission include Commissioners, the Chief Executive Officer and the members of the Executive Team who have responsibility for the strategic direction and management of the Commission.

Total compensation for the Commission's key management personnel was \$1 186 871.

Note 25. Financial risk management / Financial instruments

Financial risk management

Risk management is managed by the Commission's executive. The Risk Management Framework set by the Commission is in accordance with the Risk Management Policy Statement issued by the Premier and Treasurer and the principles established in the Australian Standard Risk Management Principles and Guidelines.

The Commission's exposure to financial risk (liquidity, credit and market) is low due to the nature of the financial instruments held.

There have been no changes in risk exposure since the last reporting period.

Categorisation of financial instruments

The carrying amount of each of the following categories of financial assets and liabilities are detailed below.

| | Note | 2017 Carrying amount / fair value \$'000 | 2016 Carrying amount / fair value \$'000 |
|------------------------------------|------|--|--|
| Financial assets | | | |
| Cash and cash equivalents | | 8 374 | 7 881 |
| Total financial assets | | 8 374 | 7 881 |
| Financial liabilities | | | |
| Payables* | 17 | 151 | 69 |
| Total financial liabilities | | 151 | 69 |

* Amount of receivables and payables disclosed excludes statutory receivables and payables (amounts owing from / to South Australian Government and GST input tax credit payable and recoverable). They are carried at cost.

Notes To And Forming Part Of The Financial Statements

Note 26. Events after the reporting period

There were no events occurring after the end of the reporting period that had a material financial implication on these financial statements.

Note 27. Administered items

Australian Energy Market Commission

An amount approved by the Treasurer is transferred to the consolidated account from the electricity and gas licence fees received by the Commission for the Australian Energy Market Commission. In 2016-17 \$1 876 000 (2015-16 \$1 719 000) was transferred.

Consumer Advocacy and Research Fund

An amount approved by the Treasurer is transferred to the consolidated account from the water licence fees received by the Commission for the Consumer Advocacy and Research Fund. In 2016-17 \$275 739 (2015-16 \$272 000) was transferred.

Technical Regulator

An amount approved by the Treasurer is transferred to the consolidated account from the electricity, gas and water licence fees received by the Commission for the Technical Regulator. In 2016-17 \$9 900 500 (2015-16 \$5 097 000) was transferred. The increase in the 2016-17 transfer reflects the 1 July 2016 annual licence fee increase for water for greater than 50 000 connections set by the Treasurer.

Department of Environment, Water and Natural Resources

An amount approved by the Treasurer is transferred to the consolidated account from the water licence fees received by the Commission for the Department of Environment, Water and Natural Resources. In 2016-17 \$516 800 (2015-16 \$162 000) was transferred. The increase in the 2016-17 transfer reflects the 1 July 2016 annual licence fee increase for water for greater than 50 000 connections set by the Treasurer.

Department of Treasury and Finance

An amount approved by the Treasurer is transferred to the consolidated account from the water licence fees received by the Commission for the Department of Treasury and Finance. In 2016-17 \$347 800 (2015-16 \$279 000) was transferred.



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To the Chairperson Essential Services Commission of South Australia

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 24(2) of the *Essential Services Commission Act 2002*, I have audited the financial report of the Essential Services Commission of South Australia for the financial year ended 30 June 2017.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Essential Services Commission of South Australia as at 30 June 2017, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2017
- a Statement of Financial Position as at 30 June 2017
- a Statement of Changes in Equity for the year ended 30 June 2017
- a Statement of Cash Flows for the year ended 30 June 2017
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chairperson, the Chief Executive Officer and the Manager Finance and Information Technology.

Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of my report. I am independent of the Essential Services Commission of South Australia. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 Code of Ethics for Professional Accountants have been met.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Executive Officer and the Commissioners of the Essential Services Commission of South Australia for the financial report

The Chief Executive Officer is responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and the Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

The Commissioners of the Essential Services Commission of South Australia are responsible for overseeing the entity's financial reporting process.

Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive Officer
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the Chief Executive Officer and the Commissioners of the Essential Services Commission of South Australia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.

A handwritten signature in black ink, appearing to read 'Richardson', with a long horizontal stroke extending to the right.

Andrew Richardson

Auditor-General

27 September 2017



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