



## Fact Sheet

### Licensee categorisation methodology

Regulatory arrangements for small-scale and off-grid water, gas and electricity services

This fact sheet outlines the methodology that will be used to categorise licensees as part of the implementation of the inquiry into regulatory arrangements for small-scale and off-grid water, gas and electricity services (**Inquiry**).

The categorisation forms part of introducing the verified trust and accountability approach (**VTA approach**) on 1 July 2022, consistent with the outcome of the Inquiry.

The VTA approach is explained in more detail in the final Inquiry report available on the Commission's website.<sup>1</sup>

The VTA approach is a targeted, flexible approach to regulation. As well as accounting for existing compliance obligations, it increases transparency by placing more emphasis on licensed small-scale network operators providing assurance to their customers, and the Commission, that the services they provide are sustainable. Practically, this means assessing licensees in order to obtain such assurance. To do so, the Commission will assess each licensee on its compliance and sustainability performance and place it in one of two categories:

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

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

The Commission will work with and monitor Category B licensees as they develop and implement remediation strategies, with the goal of future reassessment as Category A.

#### The three stages of categorisation

Categorising licensees will occur in three stages.

- ▶ Stage one will be undertaken in consultation with each licensee. The Commission will collaborate with licensees to verify operational, financial and performance information previously submitted. If information previously provided by a licensee is not of sufficient quality to allow a detailed assessment to be undertaken, the licensee will be classified as Category B. If it is of sufficient quality, stage two is triggered.
- ▶ Stage two is designed to provisionally classify licensees as Category A or B, based on the information available. If Category A is achieved, the assessment process stops for that licensee.
- ▶ Stage three gives the licensees assessed as Category B an opportunity to respond and engage with the Commission, to provide further supporting information and/or to identify a credible, measurable, remediation strategy. If such a strategy can be developed and agreed, the licensee will be Category A. If not, Category B will apply.

Refer to Attachment A for key implementation dates.

<sup>1</sup> Refer: <https://bit.ly/SmallScaleInquiryProject>

## Categorisation threshold

Categorisation is based upon two sets of indicators: compliance and service sustainability (where applicable).

There are five compliance indicators and five sustainability indicators. For each indicator, a 'traffic light' score of green, amber or red is applied based on licensees' performance outcomes.

For a full description of the categorisation indicators, refer to Attachment B.

The current minimum threshold for a Category A categorisation:

- ▶ Compliance: at least two green indicators with no red indicators.
- ▶ Sustainability (water retailers only): no more than two red indicators.

The licensee will only be assessed as Category A if it is at or above **both** minimum thresholds. Additionally, all services a licensee provides must be assessed as Category A for the licensee to be assessed as Category A overall.

The Commission will consistently monitor outcomes, and through this, the classification of licensees may change, depending on the licensee's performance over time.

Note that these thresholds have been set for the start of the VTA approach. In future years the Commission may change the threshold, particularly for sustainability indicators, with the expectation that licensees should have improved the sustainability of their services over time (including, in the case of Category B, through effective implementation of remediation programs).

## Compliance indicators

As a part of the assessment process, the Commission has reviewed each licensee's current compliance with licence conditions and regulatory requirements. This included:

- ▶ an assessment of the 2019-20 annual compliance report submitted, and
- ▶ a review of the consumer protection materials required to be published under the regulatory framework.

The results of those assessments have been communicated to licensees.

The Commission has adopted indicators to measure the compliance of a licensee with its license conditions. These include data on:

- ▶ breaches (material, minor and unreported)
- ▶ systemic issues, and
- ▶ late reporting.

## Sustainability indicators

The Commission has adopted five indicators to measure the sustainability of a licensee's water retail service/s.

Those sustainability indicators are based on the financial and operational data licensees have provided to the Commission in their annual regulatory returns.

The indicators include data measuring:

- ▶ reliability
- ▶ operating surpluses/deficits
- ▶ capital expenditure and depreciation, and
- ▶ asset condition.

Energy licensees will not be assessed on sustainability at this stage, but will be as part of future monitoring. As a part of the current assessment process, the Commission has taken into account data provided to it in licensees' annual regulatory returns. This includes:

- ▶ complaints received
- ▶ disconnections for non-payment of a bill, and
- ▶ supply interruptions.

## Statement of Reasons

For any licensee who is not assessed as Category A in stage two of the process, the Commission will provide a Statement of Reasons explaining why Category A was not attained.

The licensee will be provided with the opportunity to respond, to provide further evidence in relation to the identified issues and to work with Commission to resolve these.

The objective of this interaction is for licensees to develop a credible, measurable, and verifiable set of actions and commitments to undertake to resolve any concerns. In this context, these terms mean:

- ▶ **Credible:** The actions/commitments relate directly to the identified areas of concern and

can genuinely be undertaken by the licensee within the time frame proposed.

- ▶ **Measurable:** There are measurable outcomes associated with applying the actions and/or commitments identified.
- ▶ **Verifiable:** When and how the actions and/or commitment was undertaken can be verified.

## Further Information

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

<https://bit.ly/SmallScaleInquiryProject>

or by contacting Ashley Harbutt, Manager, Regulatory Analysis, on 08 8463 4353 or at [Ashley.Harbutt@escosa.sa.gov.au](mailto:Ashley.Harbutt@escosa.sa.gov.au).

## Attachment A - Key implementation dates

Key dates <sup>2</sup>	Implementation stage
September to December 2021	Commission to engage and collaborate with licensees to verify operational, financial and performance information previously submitted.
January to February 2022	The Commission provisionally assigns each licensee as Category A or B, based on the information available. The result of this classification will be communicated to licensees.
February to March 2022	Licensees assessed as Category B will have an opportunity to respond and engage with the Commission, to provide further supporting information, and/or to identify a credible, measurable, remediation strategy.
April to June 2022	Licensees formally assigned as Category A or B. The result of this classification will be communicated to licensees and published on the Commission's website.
1 July 2022	Revised regulatory framework commences.

<sup>2</sup> Dates are indicative and may vary for individual licensees.

## Attachment B – Description of categorisation indicators

Indicator	Rule specification
<b>Compliance culture</b>	
<b>Indicator 1:</b> Material breach	None within the period 2015-16 to most recent reporting year
	A material breach within the period 2015-16 to 2017-18
	A material breach within the period 2018-19 to most recent reporting year
<b>Indicator 2:</b> Minor breach	Maximum of one within the period 2015-16 to most recent reporting year
	A minor breach in two years within the period 2015-16 to most recent reporting year
	A minor breach in three or more years within the period 2015-16 to most recent reporting year
<b>Indicator 3:</b> Unreported breach	Maximum of one unreported breach within the period 2015-16 to most recent reporting year
	An unreported breach in two years within the period 2015-16 to most recent reporting year
	An unreported breach in three or more years within the period 2015-16 to most recent reporting year
<b>Indicator 4:</b> Systemic issue	No systemic issue within the period 2015-16 to most recent reporting year
	One or more systemic issues within the period 2015-16 to 2017-18
	One or more systemic issues within the period 2018-19 to most recent reporting year
<b>Indicator 5:</b> Late report	Maximum of one late report within the period 2015-16 to most recent reporting year
	Two years of late reports within the period 2015-16 to most recent reporting year
	Three or more years of late reports within the period 2015-16 to most recent reporting year

Indicator	Rule specification
<b>Service sustainability</b>	
<b>Indicator 6:</b> Number of mains breaks and/or chokes per customer	Breaks and/or chokes per customer in the upper quartile for one year or less within the period 2015-16 to most recent reporting year
	Breaks and/or chokes per customer in the upper quartile for two years within the period 2015-16 to most recent reporting year
	Breaks and/or chokes per customer in the upper quartile for three or more years within the period 2015-16 to most recent reporting year
<b>Indicator 7:</b> Number of unplanned interruptions per customer	Unplanned interruptions per customer in the upper quartile for each year or less within the period 2015-16 to most recent reporting year
	Unplanned interruptions per customer in the upper quartile for two years within the period 2015-16 to most recent reporting year
	Unplanned interruptions per customer in the upper quartile for three or more years within the period 2015-16 to most recent reporting year
<b>Indicator 8</b> Cumulative operating surplus/deficit per customer (starting 2013-14)	No deficit per customer for each year within the period 2015-16 to most recent reporting year
	Cumulative deficits per customer for no more than two years within the period 2015-16 to most recent reporting year
	Cumulative deficits per customer for three or more years within the period 2015-16 to most recent reporting year
<b>Indicator 9:</b> Cumulative capital expenditure to depreciation ratio (starting 2013-14)	Ratio equal to or above one for each year within the period 2015-16 to most recent reporting year
	Ratio less than one for no more than two years within the period 2015-16 to most recent reporting year
	Ratio less than one for three or more years within the period 2015-16 to most recent reporting year
<b>Indicator 10:</b> Remaining asset life as at most recent reporting year	Remaining asset life above 25 years
	Remaining asset life between 25 and 15 years
	Remaining asset life below 15 years

The Essential Services Commission is an independent statutory authority with functions in a range of essential services including water, sewerage, electricity, gas, rail and maritime services, and also has a general advisory function on economic matters. For more information, visit [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au).

Essential Services Commission  
GPO Box 2605 ADELAIDE SA 5001

Telephone: (08) 8463 4444 E-mail: [escosa@escosa.sa.gov.au](mailto:escosa@escosa.sa.gov.au) Web: [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au)