

Minor and Intermediate Retailers Regulatory Performance Report 2014-15

Key observations

- ▶ Local councils and small private operators provide drinking water services to approximately 5,700 customers and sewerage services to approximately 89,000 customers.
- ▶ The scale and scope of drinking water and sewerage services offered by these retailers varies considerably.
- ▶ The cost of providing drinking water and sewerage services varies between retailers resulting in a spread of customer prices across retailers.
- ▶ A majority of retailers reported operating income covering operating costs and depreciation. Many of the remaining retailers are transitioning to recover the cost of service provision by gradually adjusting prices.
- ▶ Overall, retailers are actively engaging with the Commission on compliance with regulatory requirements, providing the opportunity for better outcomes for customers.

Background

The Water Industry Act 2012 (**WI Act**) governs all water industry entities providing 'retail services' to South Australian customers.

SA Water services over 99 percent of total drinking water customers and 87 percent of total sewerage customers in South Australia. The remaining 5,700 drinking water customers and 89,000 sewerage customers are serviced by water and sewerage

service retailers with 50,000 or fewer customers (**Minor and Intermediate Retailers**).

As at 30 June 2015, there were 63 licensed Minor and Intermediate Retailers in South Australia. Of these retailers, 56 are council run and seven are private operators.

Regulatory framework

The WI Act establishes the regulatory framework for the water and sewerage industry covering economic regulation, technical regulation, water planning and customer complaint handling.

The Essential Services Commission's (**Commission**) regulatory roles in the water and sewerage industry include industry licensing, consumer protection and retail pricing. Environmental, health and technical matters are addressed by other regulators and Government agencies, such as the Environment Protection Authority, SA Health and Office of the Technical Regulator.

Reflecting the difference in the scale and nature of operations, the Commission implemented a light handed approach to the regulation of Minor and Intermediate Retailers than that is applied to SA Water.

The regulatory framework for Minor and Intermediate Retailers has two aspects: a Regulatory Determination that sets out the pricing principles that retailers must comply with when developing their water and sewerage services prices; and a customer protection framework that sets out the behavioural standards and minimum requirements that retailers must comply with when dealing with their customers.

Initial regulatory period (1 July 2013 to 30 June 2017)

The Initial Regulatory Period runs for four years, from 1 July 2013 to 30 June 2017. During this period, the Commission has focused on educating retailers of their new regulatory obligations and assisting them to implement new processes where required.

A key part of the regulatory framework is ensuring the sustainability of services and that customers are not faced with excessive prices. One focus area has therefore been on promoting the need for retailers to set prices that recover the costs of service provision, and assessing the extent to which they are doing this.

During this transitional period, the Commission has taken a collaborative approach on retailers' compliance with their regulatory obligations. To the extent that some retailers' current practices do not meet the requirements of the regulatory framework, the Commission continues to work with them to provide targeted support to assist in transitioning to compliance with those obligations as soon as possible.

Regulatory performance monitoring

To assess implementation of the regulatory framework, the Commission monitors Minor and Intermediate Retailers in respect to three areas:

- ▶ **Financial performance** – so that the recovery of service provision costs can be monitored, retailers are required to report ring fenced revenues and costs associated with their water and/or sewerage businesses. Retailers are required to take relevant pricing principles into account in the setting of their water and/or sewerage service prices.
- ▶ **Operational performance** – so that service provision can be monitored, retailers are required to report against certain operational metrics set by the Commission. For example,

customer complaints, financial support measures and infrastructure reliability.

- ▶ **Compliance performance** – retailers are required to self-assess their ongoing compliance with all regulatory obligations and resolve any potential non-compliances as they arise.

The Commission publishes annual regulatory performance reports to inform stakeholders and consumers of regulatory performance outcomes for Minor and Intermediate Retailers.

The 2014-15 Regulatory Performance Report covers regulatory outcomes for Minor and Intermediate Retailers for the period 1 July 2014 to 30 June 2015. The key observations are:

- ▶ Estimated residential customer water bills ranged between \$538 and \$1,320. For sewerage services, estimated bills ranged between \$175 and \$886.
- ▶ Fifty eight percent of Minor and Intermediate Retailers reported income covering operating costs and depreciation.
- ▶ Retailers are more actively engaging with the Commission on compliance with regulatory requirements, providing the opportunity for better outcomes for customers.
- ▶ The timeliness and quality of annual reports have improved and retailers are demonstrating a better understanding of, and compliance with, their regulatory obligations.
- ▶ A small number of retailers are still unable to report against some of the performance metrics set by the Commission. The Commission will continue to work with those retailers to ensure they will have processes in place that will allow accurate data to be reported in future years.

Further information

The complete Minor and Intermediate Retailers Regulatory Performance Report 2014-15 can be found on the Commission's website.

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