



ESSENTIAL SERVICES COMMISSION STRATEGIC PLAN

2014/15 – 2016/17

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The Essential Services Commission of South Australia is the independent economic regulator of the electricity, gas, ports, rail and water industries in South Australia. The Commission's primary objective is the protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services. For more information, please visit www.escosa.sa.gov.au.

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INTRODUCTION

I am pleased to present the 2014/15 to 2016/17 Strategic Plan of the Essential Services Commission of South Australia (**the Commission**).

Much has changed since the Commission published its previous Strategic Plan eighteen months ago. The markets that we regulate have changed, as have our regulatory roles. We have taken on significant and broad ranging new regulatory responsibilities in the water industry and, with the commencement of the National Energy Customer Framework in February 2013, we have ceased some activities in the retail electricity and gas sectors.

However, the Commission's primary objective – to protect the long-term interest of South Australian consumers with respect to the price, quality and reliability of essential services – stands unchanged.

The work of the Commission in 2014/15 – 2016/17 will seek to build on its existing engagement and consultation linkages with all members of the community – including consumers and consumer groups, regulated businesses, industry groups, Ministers and Government agencies.

This Strategic Plan explains how the Commission will achieve our primary objective, given the recent changes that have occurred and potential developments that may occur during the next three years.



Patrick Walsh
CHAIRPERSON



PRIMARY OBJECTIVE

Our primary objective is defined by the Essential Services Commission Act as:

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

ABOUT THE COMMISSION

We are a statutory authority, established under the Essential Services Commission Act 2002 as the independent economic regulator of a number of industries in South Australia.

Our primary objective is defined by the Essential Services Commission Act as:

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

In seeking to meet that primary objective, the Commission has regard to various factors that are specified in the Essential Services Commission Act, particularly the need to:

- promote competitive and fair market conduct; and
- prevent misuse of monopoly or market power; and
- facilitate entry into relevant markets; and
- promote economic efficiency; and
- ensure consumers benefit from competition and efficiency; and
- facilitate maintenance of the financial viability of regulated industries and the incentive for long term investment; and
- promote consistency in regulation with other jurisdictions.

We interpret our primary objective by considering the welfare of consumers both today and in the future. We recognise that current and future consumer welfare must be carefully traded off.

While our focus is on consumer welfare, we recognise that the interests of regulated entities and other members of the community are relevant to the extent that they affect the current and/or future welfare of consumers. For example, we must ensure that appropriate investment incentives exist today to ensure that the future needs of consumers are met.

Functions

The Essential Services Commission Act and various industry Acts together provide us with regulatory powers and functions in the electricity, gas, ports, rail and water industries.

Each industry Act defines the specific scope of our regulatory powers and functions. These powers and functions vary significantly between industries, as summarised in Table 1.

In addition, we also undertake inquiries in the industries we regulate and advise the Treasurer on any matters referred to us.

Table 1: Commission Regulatory Functions by Industry

INDUSTRY	LEGISLATION	REGULATORY FUNCTIONS
Electricity	Electricity Act 1996	Licensing of specified electricity operations (generation, transmission, distribution [on-grid] and generation, transmission, distribution and retail [off-grid]), network reliability standard-setting, solar photovoltaic feed-in price regulation (retailer payments only), preparation and publication of Ministerial reports on energy retail prices, Residential Energy Efficiency Scheme administration, performance monitoring.
Gas	Gas Act 1997	Licensing of specified gas operations (distribution [natural and LPG] and retail [LPG only]), preparation and publication of Ministerial reports on energy retail prices, Residential Energy Efficiency Scheme administration, performance monitoring.
Ports	Maritime Services (Access) Act 2002	Pricing and access regulation for specified port services.
Rail	AustralAsia Railway (Third Party Access) Act 1999; Railway (Operations and Access) Act 1997	Access regulation for the Tarcoola–Darwin railway and specified intra-state rail lines.
Water	Water Industry Act 2012	Licensing of water and wastewater retail operations, consumer protection, retail price regulation, performance monitoring.

VALUES

Our six values describe the behaviours that we will always display:

Independent

We are not unduly influenced by anyone.

Consultative

We engage and consult with all members of the community and we consider their views on issues relevant to our decisions.

Ethical

We act honestly, fairly and with integrity.

Professional

We make our decisions with discipline and rigour, based on logic and evidence.

Accountable

We take responsibility for our actions.

Transparent

We use open and public consultation processes and make our decisions clear, understandable and publicly available. We explain the reasons for our decisions.

GOALS

The following four goals guide us in meeting our primary objective of protecting the long-term interests of consumers with respect to the price, quality and reliability of essential services:

- 1. Consumers receive essential services of appropriate reliability and quality.*
- 2. Consumers pay the lowest sustainable prices.*
- 3. Stakeholders trust us.*
- 4. Our people, culture and processes enable us to best serve our primary objective.*

These goals are complementary - no single goal can be delivered in isolation or to the detriment of any of the others. For example, we cannot ensure consumers pay the lowest sustainable prices without also taking into consideration the levels of reliability and quality consumers demand for these services.

In the following sections, we explain these goals and how we will meet them.

The Commission regularly reports on performance against these goals, in its Annual Reports and in industry-specific Annual Performance Reports.

GOAL 1

Consumers receive essential services of appropriate reliability and quality

What it means

Service standards reflect the trade-offs that necessarily exist between the benefits that consumers receive from higher service quality and/or reliability and the costs of their provision. Consumers receive service levels in practice that at least meet these service standards.

Our focus 2014/15 – 2016/17

Our focus in the coming three years will be:

- consolidating our new water regulatory regime, to ensure that it delivers its intended benefits for South Australian consumers;
- setting service standards for SA Water, other water retailers and energy network businesses to ensure that they are customer-focused and appropriately balance the benefits and costs to customers;
- monitoring and publicly reporting on the customer service and operational performance of regulated industries;
- reporting on the effectiveness of the new National Energy Customer Framework; and
- ensuring that there is a high level of compliance by regulated businesses with the provisions of the Commission's consumer protection frameworks.

Consolidation of new water regulatory role

The Water Industry Act 2012 commenced on 1 July 2012 and establishes the regulatory framework for the water and sewerage industry, covering economic regulation, technical regulation, water planning and customer complaints handling.

The Water Industry Act 2012 governs all entities that provide "retail services" to South Australian customers and establishes the Commission as the economic regulator of these services. Our role includes the licensing of retail service providers, service standard setting, consumer protection, retail price regulation and performance monitoring and reporting.

We will work with consumer groups and water retailers over the three-year period to consolidate that regulatory regime.

Customer focused service standards

The standards of service provided by regulated businesses should be at the level that best meet consumers' interests. Getting the levels right is important as this is one of the key inputs to the prices paid for regulated services. While we do not always regulate those prices (the Australian Energy Regulator is responsible for network price regulation in the energy sector), service standard and price (or revenue) regulation must work together:

- to ensure that customers receive the quality of service that they value and is cost-effective and feasible to deliver; and
- to inform the prudent and efficient level of expenditure for the price determination.

Once service standards have been set and implemented, our key tasks in this area for 2015 and 2016 will be to monitor licensee performance against the standards and to publicly report on outcomes.

Water service standards

As a part of the overall regulatory framework, we have implemented a regulatory regime which sets binding minimum standards of service to be provided to water retailers' customers. Those standards aim to ensure that retail service providers deal with their customers fairly and openly and provide services of appropriate reliability and quality.

In the period we will review the regulatory framework to ensure that water retailers have appropriate systems, processes and controls to allow them to deliver the required minimum standards.

We will also re-set SA Water's service standards and targets as part of the Commission's next price determination process for SA Water, which will be made in May/June 2016 and apply from 1 July 2016.

Electricity distribution service standards

We are responsible for setting the service standards which must be met by the major electricity distributor, SA Power Networks, in each year. During 2014/15, we will finalise a revised set of standards, which will apply for the five-year regulatory period commencing 1 July 2015.

Gas distribution service standards

We are responsible for setting the service standards which must be met by the major gas distributor, Envestra, in each year. During 2014/15, we will finalise a revised set of standards, which will apply for the five-year regulatory period commencing 1 July 2016.

Electricity transmission service standards

We are responsible for setting the service standards which must be met by the major electricity transmitter, Electranet, in each year. During 2014/15, we will commence a review of transmission service standards, which will apply for the five-year regulatory period commencing on 1 July 2018.

Performance monitoring and reporting

One of our key functions is to monitor and report on the levels of service actually provided to consumers by regulated businesses.

To achieve this, we publish Annual Performance Reports for the water, electricity distribution and transmission and gas distribution industries. Those reports include not only point-in-time analysis and outcomes but also provide a means by which comparisons over time and, in some industries, between jurisdictions, can be made.

For industries where we have a performance monitoring function, we develop a tailored monitoring and reporting regime to obtain and assess relevant information on performance levels over time.

In the water industry, we will deliver our first public reports in the first half of 2014. As the regime has only been in operation for a relatively short period of time, those reports will focus on providing an overview of the industry, a baseline of performance and an explanation of the operations of the new regulatory framework. Reports in subsequent years will focus more heavily on comparative performance over

time and between entities, with analysis of both pricing and performance against service standards.

Following the introduction of the National Energy Customer Framework the Commission will no longer report on the performance of energy retailers. However, we will continue to monitor and report on energy network outcomes on an annual basis.

We will also continue our performance monitoring and reporting functions in relation to the Residential Energy Efficiency Scheme. As consumers ultimately pay for the operation of that scheme, it is important that we inform them of the extent to which energy retailers meet their energy efficiency activity and audit targets.

National Energy Retail Law Review

Under the provisions of the National Energy Retail Law, we are required to conduct a review of that Law in 2015.

The review will focus on assessing the impact of the National Energy Retail Law on South Australian energy consumers, including whether its implementation has resulted in increased efficiencies or has adversely affected customer protection.

Having established our methodological approach to the review, we will commence collection of the data required to conduct the review during 2014/15.

In undertaking the review, we will consult openly and transparently with all members of the community. Consumer engagement, in particular, will be an important part of the review process and will help to identify particular issues for review.

Compliance

Compliance will continue to be a focus, particularly in relation to the Commission's new regulatory regime for the water industry. One of our key tasks will be to ensure that retail service providers have strong internal compliance systems and controls in place, to enable them to deliver the consumer protections that we require.

Ensuring a strong culture of compliance within all regulated businesses helps minimise the potential for poor consumer outcomes. However, if a regulated entity breaches its regulatory obligations, we will take action to ensure that consumers receive appropriate redress and that the entity institutes measures to prevent recurrence of any breaches.

GOAL 2

Consumers pay the lowest sustainable prices

What it means

Prices encourage both efficient use of essential services by consumers and efficient operation and investment by service providers. This is achieved if prices reflect only the prudent and efficient costs of providing services of appropriate quality and reliability.

Our focus 2014/15 – 2016/17

Our focus in the coming three years will be:

- completing the water retail pricing inquiry referred to us by the Treasurer;
- continuing to administer the First SA Water Price Determination;
- making our Second SA Water Price Determination;
- ensuring that minor and intermediate water retailer service providers understand and meet their pricing obligations;
- reviewing electricity retailer feed-in tariff arrangements;
- monitoring energy retail prices;
- reviewing the need for ongoing access regulation of intrastate railways;
- reviewing the revenues earned from the provision of access to the Tarcoola–Darwin railway; and
- monitoring ports prices.

Promote water pricing reform

On 24 September 2012, the Treasurer of South Australia, pursuant to section 35(1) of the Essential Services Commission Act 2002, referred to the Commission an Inquiry into pricing reform for SA Water's drinking water and sewerage services. We commenced this review in August 2013.

The Inquiry is examining options for pricing reform that will promote the long-term interests of consumers. We will make recommendations in December 2014 and our hope is that proposed reforms would be accepted by the Government and implemented prior to the commencement of the Second Regulatory Period, beginning 1 July 2016. However, should this not occur and a longer lead time be required before any reforms can be introduced, we will ensure that there is sufficient flexibility in the Second Price Determination to introduce any accepted reforms as early as possible during the Second Regulatory Period. The key areas for reform that are being examined include:

- reform of SA Water's drinking water tariff structure to promote greater cost reflectivity;
- possible changes to the current property-based approach to sewerage pricing;
- location-based pricing as an alternative to the current statewide pricing approach;
- moving from the current arrangement of SA Water charging the land owner to one based on the customer being the end user; and
- the merits of increasing the number of individual customers that are metered and the merits of smart water meters.

We are required to undertake the Inquiry and submit Draft and Final Reports on all matters subject to the Inquiry to the Treasurer and Minister for Water and the River Murray in accordance with the following timetable:

- a Draft Report to be submitted by 31 May 2014;
- a Final Report to be submitted by 31 December 2014.

We will present detailed information in our reports on the impacts of our recommended reforms on different customer groups. This will enable the Government to assess the equity impacts of the reforms and consider any necessary changes to concession arrangements and to provide information to all members of the community about the implications of the proposed reforms on their water and sewerage bills.

Price Determinations for SA Water

We made our first independent price determination for SA Water in May 2013, setting maximum allowed revenues for drinking water and sewerage retail services for the three year period from 1 July 2013 to 30 June 2016. SA Water and the South Australian Government are responsible for setting specific prices (such as supply and usage charges for residential and non-residential customers); however resulting revenues to SA Water must not exceed the revenue caps set by the Commission.

In the next three years we will administer the first determination, ensuring that SA Water's annual prices comply with the determination.

We will also conduct the Second SA Water Price Determination. This includes finalising the framework and approach that will guide the determination and commencing the formal price determination process in 2015/16. Consistent with the approach taken for the First Price Determination, this will involve extensive consultation with all members of community and the release of a number of papers, including an issues paper, draft price determination and final price determination. We will also explain the impacts of our determination on different types of customers.

Price Regulation of Minor and Intermediate Water Retailers

In June 2013, we made our first price determination to apply to Minor and Intermediate Water Retailers which introduced a combination of pricing principles and a price monitoring framework for the Initial Regulatory Period (1 July 2013 to 30 June 2017). The principles are based on the National Water Initiative Pricing Principles, which is a nationally-agreed framework for water pricing.

Our approach recognised that a period of transition would be required before many Minor and Intermediate Water Retailers could demonstrate compliance with the pricing principles. In particular, many retailers will need to transition from a state of under-recovery of efficient costs to full cost recovery.

During the next three years, we will focus on working with Minor and Intermediate Water Retailers to facilitate the transition towards compliance with the pricing principles. We will publicly release annual reports commenting on the status of each retailer's progress against meeting the principles.

Reviewing the Retailer Feed-in Tariff

In December 2013 we established a formal Retailer Feed-in Tariff price monitoring regime for the 12 month period commencing 1 January 2014. This price-monitoring regime will monitor the extent of competition for PV customers and the incidence of Retailer Feed-in Tariff payments above the mandatory minimum Retailer Feed-in Tariff value. Evidence provided through that process will inform our subsequent decision as to whether to continue to set a minimum Retailer Feed-in Tariff in 2015.

We may, therefore, continue to set the Retailer Feed-in Tariff during the next three years and/or monitor the development of competition between retailers for solar customers.

Energy Price Monitoring

During the next three years, we will continue to monitor the prices for the sale of electricity available to small customers under the National Energy Retail Law (South Australia). Under the Electricity Act 1996 and the Gas Act 1997, we are required to submit to the Minister for Mineral Resources and Energy, and publish on our website, a report monitoring the energy retail prices that were generally available to residential and small business customers during the previous financial year. The report must be published by 31 August in each year.

Review of the Intrastate Rail Access Regime

From October 2014, pursuant to Section 7A of the Railways (Operations and Access) Act 1997, we will review whether or not the third party access regime that exists for intrastate railway infrastructure services covered by the Act should continue for a further five years.

The review must be completed by 30 October 2015.

Review of Tarcoola-Darwin Railway Revenues

Section 50(4) of the AustralAsia Railway (Third Party Access) Act 1999 requires us to conduct a review of the revenues paid or payable for access to the Tarcoola-Darwin railway where no sustainable competitive price exists. The review will examine whether or not the revenues are excessive having regard to the efficient cost of providing access, including a commercial rate of return. The review will commence in June 2014 and be completed in March 2015.

Ports Price Monitoring

During the next three years, we will continue to monitor ports process and publicly release an annual ports price monitoring report.

GOAL 3

Stakeholders trust us

What it means

Members of the community are most likely to trust us to make sound decisions if they recognise that we will consider all relevant information and make all decisions independently, transparently and with integrity. An environment of trust will also create an environment in which the Commission is more likely to receive timely, high quality information.

We will endeavour to create an environment of trust by ensuring that all members of the community are consulted, their views are considered seriously, their information is used wisely and their confidentiality is respected.

At the same time, consistent with other regulators nationally and internationally, we require regulated businesses to engage directly with customers and their representatives in developing proposals for consideration by the Commission.

Our focus 2014/15 – 2016/17

Our focus in the coming three years will be:

- communicating clear and succinct messages to all South Australians;
- ensuring we use effective consultation processes; and
- continuing to develop relationships with all members of the community.

Communicating our messages

We will continue to be open and transparent about our regulatory process and decisions. We will provide advice and assistance to all members of the community on the regulatory framework, key regulatory issues and the outcomes of our decisions.

We will refine our communications strategy to identify ways in which we can deliver our messages in a more succinct and simple way. We will also review the effectiveness of our website and further develop it to ensure it continues to meet the information needs of different members of the community.

Effective consultation

We will proactively seek and consider the views of all members of the community and provide them with the opportunity to provide information and raise concerns on the impacts of potential decisions and to suggest alternatives and improvements at various stages of our reviews.

We will also refine our consultation methodologies, to identify ways in which we can assist individuals to be involved in an easier way.

Developing relationships

We will continue to develop relationships with members of the community including consumer groups, regulated industries, peak bodies, Government and other regulators, to ensure we are best placed to understand community members' changing interests.

We will regularly consult with consumer representatives on the Consumer Advisory Committee to ensure consumer groups are informed about Commission activities and their interests are represented in Commission decisions.

We will regularly engage with Government, to enable us to understand and influence statutory and policy settings that may affect our decisions and to provide feedback on the impacts of our decisions where the Government, rather than the Commission, has policy responsibility (for example, the provision of customer concessions and the management of transitional pricing impacts).

Additionally, as part of our commitment to developing positive relationships with members of the community, we will contract an independent company to undertake a stakeholder survey every two years. The surveys will test perceptions of our performance across a range of measures. As part of our commitment to transparency, we will make these reports publicly available.

GOAL 4

Our people, culture and processes enable us to best serve our primary objective

What it means

The functions we perform are complex, require strong interaction with external parties, can generate significant impacts for the community, and are funded by industry and government (and ultimately by consumers and taxpayers). Therefore, we require highly skilled staff, a consultative but independent approach, governance processes that generate trust while protecting our independence and integrity, and efficient and effective operating processes.

Our focus 2014/15 – 2016/17

Our focus in the coming three years will be:

- ensuring that our robust and ethical governance framework is maintained and that our staff embody the values and principles of the Commission’s Code of Conduct and the South Australian Government’s Code of Ethics, thereby strengthening confidence in our decision making;
- ensuring that the comprehensive set of operational policies, procedures and guidelines we have in place are regularly reviewed to ensure they are relevant and integrated into day to day operations - these policies cover the areas of finance, procurement, human resources, work health and safety, information management and risk management;
- encouraging excellence and personal improvement in staff by promoting continued education and training, both through internal sharing of knowledge and external programs; and
- establishing an annual Performance Plan for each financial year and designing our budget to meet the needs of the Performance Plan, we will continually monitor our achievement against the Performance Plan, plan and monitor our expenditure to ensure that it is prudent and efficient and review our expenditure against the budget.



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