

# STRATEGIC PLAN

2015 – 2018

MARCH 2015



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

# TABLE OF CONTENTS

Introduction	2
About the Commission	3
Advisory functions	3
Regulatory functions	3
Statement of Regulatory Intent	6
Our Approach	6
Engagement	7
Operating efficiently and effectively	7
Our Strategy – a Summary	9
Goal 1: We will establish consumer protection frameworks to promote the delivery of both service levels valued by consumers and efficient prices	11
Goal 1 priorities 2015 – 2018	13
Goal 2: We will keep regulated businesses accountable by monitoring and reporting on service standards and licence requirements	19
Goal 2 priorities 2015 – 2018	20
Goal 3: We will consult genuinely and promote community understanding and engagement	23
Goal 3 priorities 2015 – 2018	24
Goal 4: We will contribute to a strong, sustainable economy in South Australia	26
Goal 4 priorities 2015 – 2018	27
People, Culture and Systems	30

## INTRODUCTION

I am pleased to present the 2015 to 2018 Strategic Plan of the Essential Services Commission of South Australia (**the Commission**).

I note the majority of our Commission, and the Chief Executive Officer, were appointed in 2014. Given this, now is an opportunity for us to revisit how we deliver our regulatory functions and thereby meet the Commission's primary objective, to protect the long term interests of South Australian consumers of essential services. As part of this process, we have revised our goals to be functionally based rather than outcomes based. This makes us more specific about our how we will meet our objective and enables us to better measure our performance and thereby be more accountable, while still contributing to the same outcomes.

This strategic plan sets out how we will regulate to meet these goals for the three year period beginning July 2015.

In delivering the plan we will also promote the achievement of the goals of the South Australian Strategic Plan and 10 Economic Priorities for the State, where they intersect with our work. We will also endeavour to be on the frontier of best practice regulation and will develop a formal framework to govern the Commission's approach to developing, maintaining and applying regulation.

The work of the Commission during this period 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.



Patrick Walsh  
CHAIRPERSON

March 2015

## ABOUT THE COMMISSION

We are a statutory authority established as an independent economic regulator and advisory body under the Essential Services Commission Act 2002.

We regulate the provision of essential services in the water and sewerage, electricity, gas, ports and rail industries, conduct formal public inquiries and provide advice to Government on economic and regulatory matters.

### *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 Essential Services Commission Act). In that capacity the Commission acts as a consultant to the Government, providing independent advice on economic and regulatory matters.

The second is to conduct public Inquiries (Part 7 of the Essential Services Commission Act). Such Inquiries can be initiated by the Commission itself into any matters within its regulatory scope, or by the Treasurer or an industry Minister 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 Essential Services Commission Act and various industry Acts together provide us with regulatory powers and functions.

Section 5(1) of the Essential Services Commission Act specifies the following functions of the Commission:

- ▲ to regulate prices and perform licensing and other functions under relevant industry regulation Acts
- ▲ to monitor and enforce compliance with and promote improvements in standards and conditions of service and supply under relevant industry regulation Act
- ▲ to make, monitor the operation of, and review from time to time, codes and rules relating to the conduct or operations of a regulated industry or regulated entities
- ▲ to provide and require consumer consultation processes in regulated industries and to assist consumers and others with information and other services
- ▲ to advise the Minister on matters relating to the economic regulation of regulated industries, including reliability issues and other service standards
- ▲ to advise the Minister on any matters referred by the Minister

- ▲ to administer the Essential Services Commission Act
- ▲ to perform functions assigned to the Commission under the Essential Services Commission Act or any other Act, and
- ▲ in appropriate cases, to prosecute offences against the Essential Services Commission Act or a relevant industry regulation Act.

Each industry Act provides a specific regulatory role for us. Our powers and functions vary between industries, as summarised in the table on the following page.

**Commission regulatory functions by industry Act as at February 2015**

INDUSTRY	LEGISLATION	REGULATORY FUNCTIONS
Water	Water Industry Act 2012	<p>Water and sewerage retail service providers:</p> <ul style="list-style-type: none"> <li>▲ Licensing</li> <li>▲ Retail price regulation</li> <li>▲ Consumer protection</li> <li>▲ Service/reliability standard setting</li> <li>▲ Performance monitoring and reporting</li> </ul> <p>Other functions as required from time to time.</p>
Electricity	Electricity Act 1996	<p>Electricity generation, transmission, distribution and off-grid suppliers:</p> <ul style="list-style-type: none"> <li>▲ Licensing</li> <li>▲ Service/reliability standard setting</li> <li>▲ Performance monitoring and reporting</li> </ul> <p>Electricity retail operations:</p> <ul style="list-style-type: none"> <li>▲ Determination of the retailer solar photovoltaic Feed-in Tariff</li> <li>▲ Preparation and publication of Ministerial Energy Retail Pricing reports</li> <li>▲ Retailer Energy Efficiency Scheme administration</li> </ul> <p>Other functions as required from time to time.</p>
Gas	Gas Act 1997	<p>LPG gas operations:</p> <ul style="list-style-type: none"> <li>▲ Licensing of retail and distribution</li> </ul> <p>Natural gas operations</p> <ul style="list-style-type: none"> <li>▲ Licensing of distribution</li> </ul> <p>Gas retail operations:</p> <ul style="list-style-type: none"> <li>▲ Preparation and publication of Ministerial Energy Retail Pricing reports</li> <li>▲ Retailer Energy Efficiency Scheme administration</li> </ul> <p>Other functions as required from time to time.</p>
Rail	<p>AustralAsia Railway (Third Party Access) Act 1999</p> <p>Railway (Operations and Access) Act 1997</p>	<ul style="list-style-type: none"> <li>▲ Regulation under the AustralAsia (Third Party Access) Code for the Tarcoola–Darwin railway</li> <li>▲ Access regulator for specified intra-state rail lines.</li> </ul>
Ports	Maritime Services (Access) Act 2000	<ul style="list-style-type: none"> <li>▲ Pricing and access regulator for specified port services.</li> </ul>

## STATEMENT OF REGULATORY INTENT

The Commission seeks to be, and actively works towards being, a high performing and responsive agency that administers a principles-based regulatory framework and provides robust economic and regulatory advice. We do so in a way that best protects consumers while minimising compliance costs for business.

Our approach provides consumers, regulated businesses and the broader community with regulatory stability and certainty over time; it is one which is efficient and effective and it balances the objectives set for us in the Essential Services Commission Act.

### *Our Approach*

The Commission promotes a culture in which Commissioners and staff are impartial, accountable, professional, transparent, respectful and ethical, as identified by our Values. We are supportive of, uphold and promote the values and conduct requirements of the South Australian Public Sector and will continue to do so.

As a statutory authority with responsibilities in the essential services sector and for providing economic and regulatory advice, it is imperative that we act independently and objectively in performing our functions and exercising our powers as set out in our establishing Act and in other industry-specific regulation Acts.

This means that our actions and decisions must be free from bias and undue influence.

Nevertheless, it is important for us to take into account the overall policy and legislative framework established by the Parliament in the performance of our roles and responsibilities, and not to act in isolation from that framework. That is particularly so in relation to our inquiry and advisory functions, where the Commission does not act as a decision maker but instead aims to provide expert, balanced and impartial advice to Government on any matter referred to it.

We aim to minimise regulatory costs for affected businesses, consistent with regulations that protect the long term interests of consumers. We promote competition as a means of delivering services at the lowest sustainable price. We seek sustainable prices, rather than the lowest short term prices possible, to ensure that regulated businesses have sufficient funds to invest and operate to ensure continuity in the supply of essential services.

We actively engage with other regulators within this State, where their roles may intersect with ours. We do so to understand the nature of the costs their requirements may impose on regulated businesses and to seek to avoid duplication in regulatory roles.

We continue to examine means of better targeting regulation and clarifying with licensees and other regulated businesses their obligations as a way of reducing unnecessary compliance costs, subject to the policy framework. Overall, we seek to play our part in improving the productivity of the South Australian economy.

To this end, we will keep abreast of developments in regulatory best practice (both nationally and internationally) and seek to bring new developments to bear in our work at the earliest opportunity. As part of the commitment, we will undertake a project to develop a formal framework to govern the Commission's approach to developing, maintaining and applying regulation.

Where possible, we will also look to provide leadership in regulatory matters, developing innovative regulatory and advisory responses which meet the needs of consumers, regulated businesses and other stakeholders. We will balance the need for regulatory stability with the need for reform in the long term interests of consumers and the community.

## *Engagement*

We operate in a transparent manner, to ensure that all stakeholders understand the issues that we are considering and the reasons for our decisions.

Stakeholder engagement in our regulatory and advisory processes is critical. We recognise that the information and advice we can gain through genuine and effective engagement can only serve to enhance the quality and efficacy of our regulatory decisions and advice.

Genuine and effective engagement will also enhance community understanding of the sectors we regulate and of the regulatory issues which are of importance to this State.

We will engage with all stakeholders in the performance of our functions, to ensure that the implications of our actions are fully understood and taken into account in our decision making.

Our commitment to engagement is detailed in our Charter of Consultation and Practice (available at <http://www.escosa.sa.gov.au/consultation/charter-of-consultation-and-regulatory-practice.aspx> ).

We have established a Consumer Advisory Committee to assist us in our roles and functions. The committee comprises representatives from across the consumer interest sector, meeting regularly to discuss current and future regulatory issues. The committee provides us with a means by which we can access a broader range of community views, thereby enhancing the reach, scope and effectiveness of our decisions and advice.

## *Operating efficiently and effectively*

As a small office, with limited resources, we do our best to operate in a manner which is both efficient and effective. We are structured on a functional, rather than industry-specific, basis and work collaboratively to ensure that we bring the right skills and expertise to bear in all of our tasks.

We ensure our staff have a safe and supportive work environment and the resources necessary to perform their work and grow professionally.

We aim to maintain and, where appropriate to do so, to enhance our internal capacities and resources, as this will build regulatory and economic knowledge within the South Australian

public sector. The functions we perform are technical yet critical to the economic well-being of the State. Keeping and maintaining the right skills and experience is an important long-term strategy for the Commission, enabling it to contribute more broadly to South Australia's future.

## OUR STRATEGY – A SUMMARY

Our primary **OBJECTIVE** under the Essential Services Commission Act is the protection of the long-term interests of consumers with respect to the price, quality and reliability of essential services.

The Essential Services Commission Act also requires us to have regard to the need to:

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

Our **GOALS** guide us in meeting our objective to protect consumers:

1. We will establish consumer protection frameworks to promote the delivery of both service levels valued by consumers and efficient prices  
*Measure: Consumers are protected and pay the lowest sustainable prices for the required level of service*
2. We will keep regulated businesses accountable by monitoring and reporting on service standards and licence requirements  
*Measure: Consumers receive essential services at a level of reliability and quality consistent with determined standards*
3. We will consult genuinely and promote community understanding and engagement  
*Measure: Stakeholders trust us*
4. We will contribute to a strong, sustainable economy in South Australia  
*Measure: Our regulatory reviews are robust and our regulatory advice is respected*

Our **VALUES** describe how we, as an organisation and as individuals, will always behave:

- ▲ **Independent** - We act impartially and in accordance with our legislative framework
- ▲ **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

Our **PEOPLE, CULTURE AND SYSTEMS** underpin our goals and our values. We will ensure our people have the resources, training and support to undertake their jobs in a culture that is supportive, professional and committed to debate and intellectual rigour. We ensure our systems are efficient and effective.

The **DELIVERY** of our objective and goals is through our Strategic Plan and annual priorities, which we set out in our Performance Plan each year. The Performance Plan is translated into workgroup plans which in turn influence the objectives of all Commission staff.



We **REVIEW** how well we have done in delivering our Performance Plan and achieving our objectives and goals internally and externally. We survey our stakeholders to gain their views on our performance and publicly release the survey report. We also report on our performance in our annual report and on the efficiency and effectiveness of our organisation in our annual finance statements. Both documents are laid before Parliament.

## WORK PRIORITIES BY GOAL FOR 2015-2018

This Strategic Plan contains a list of priorities for each Goal over the period 2015 - 2018. A summary of the People, Culture and Systems Core Work that is necessary to deliver our work program is also provided.

In addition, the Commission releases a Performance Plan each financial year which sets out its goals, major projects and priorities with respect to the full range of the Commission's functions, for each year. The Performance Plan is approved by the Treasurer and then made available on our website.

# GOAL 1: WE WILL ESTABLISH CONSUMER PROTECTION FRAMEWORKS TO PROMOTE THE DELIVERY OF BOTH SERVICE LEVELS VALUED BY CONSUMERS AND EFFICIENT PRICES

## ***Measure***

Consumers are protected and pay the lowest sustainable prices for the required level of service.

## ***Background***

We are empowered to make industry codes, rules and guidelines under the Essential Services Commission Act.

These codes, rules and guidelines are important as they are the means through which consumers are protected in regulated industries, containing rules for operators in relevant industries. We have made industry codes and guidelines in the water, electricity distribution and transmission, gas distribution and transmission, reticulated LPG gas, energy retail and ports industries.

As a part of that regime, we also develop and implement service standards to protect consumers. The development and implementation of service standards involves consideration of many factors. The intended outcome is the delivery of a level of service desired by the customers at a price that the customers are willing to pay and which permits the supplier to deliver at least that level of service in the long-term. In this way there is a trade-off between price and service level.

Getting the service levels right is important as this is one of the key inputs to the prices paid for regulated services. We have price determination powers under the Essential Services Commission Act, which can be applied within regulated industries subject to the terms of the governing Acts for those industries (such as the Water Industry Act).

While we do not always regulate prices (for example, the Australian Energy Regulator is responsible for network price regulation in the energy sector), it is critical that service standard and price regulation 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.

## *Water*

Our regulatory frameworks apply to all water and sewerage retailing operations in South Australia, regardless of the number of customers to whom those services are provided. Recognising that there are differences in scale and scope of retail operations provided throughout the State, we have established three retail licence classes:

- ▲ **Major:** those retailing more than 50,000 customers (currently only SA Water)
- ▲ **Intermediate:** those retailing to between 500 and 50,000 customers, and
- ▲ **Minor:** those retailing to fewer than 500 customers.

Intermediate and Minor water retailers therefore provide smaller-scale water and/or sewerage services, and, as a result, we have a more light-handed approach to regulation of those retailers than is applied to Major Retailers. Retail services provided by Minor and Intermediate Retailers include:

- ▲ drinking water for local communities
- ▲ sewerage services through Council operated Community Wastewater Management Schemes, and
- ▲ small recycled or reuse water schemes.

We will have a focus in the planning period to ensure that the water retail regulatory regimes developed and administered by the Commission are effective, appropriate and legally compliant. We will assist Minor and Intermediate Retailers with implementing their systems and policies. We will review regulatory frameworks and make pricing determinations to apply to Major, Minor and Intermediate water retailers.

The strategies identified as the means of achieving this goal are to:

- ▲ ensure the efficient development and administration of regulatory regimes
- ▲ ensure prices and pricing frameworks are efficient and sustainable, and
- ▲ ensure regulatory frameworks are fit for current conditions.

## *Goal 1 priorities 2015 – 2018*

Our priorities in the coming three years will be:

- ▲ Reviewing the regulatory framework that will apply to SA Water from 1 July 2016, including:
  - △ reviewing the regulatory instruments applicable to SA Water
  - △ setting service standards for SA Water for 2016-2020, and
  - △ reviewing SA Water’s 2015 Regulatory Business Proposal and making a Price Determination having regard to that proposal and all other submissions.
- ▲ Reviewing the Minor and Intermediate Water Retailer regulatory framework to apply from 1 July 2017, including:
  - △ reviewing the relevant regulatory instruments
  - △ considering the need to establish service standards, and
  - △ making a Price Determination
- ▲ Setting service standards for electricity transmission for 2018-2023
- ▲ Reviewing the need for ongoing regulation of the electricity Retailer Feed-in Tariff and, if required, making a Retailer Feed-in Tariff determination
- ▲ Preparing Ministerial energy price monitoring reports under the Gas and Electricity Acts, and
- ▲ Monitoring and reporting on ports prices.

### *Reviewing the regulatory framework that applies to SA Water*

SA Water Price Determination 2013 expires on 30 June 2016. Prior to the commencement of the next four-year regulatory period, we will review our existing regulatory instruments that relate to SA Water, including the service standards that SA Water must comply with, and make a new Price Determination to apply from 1 July 2016 to 30 June 2020.

The process for SA Water Price Determination 2016 will commence with the receipt of SA Water’s Regulatory Business Proposal in August 2015. SA Water’s Regulatory Business Proposal will, among other things, be based on the outcomes of its consumer engagement program, which tested consumers’ preferences for different services/service standards having regard to the costs of their delivery and impacts on prices.

Consistent with the approach taken for SA Water Price Determination 2013, we will provide opportunities for the community to provide input through commenting on SA Water’s Regulatory Business Proposal, the draft determination or at any stage of the project. A draft price determination will be released in February 2016 and final price determination in May 2016.

## Reviewing the relevant regulatory instruments

The consumer protection and reporting framework for SA Water is contained in the following regulatory documents:

- ▲ Water Retail Code – Major Retailers
- ▲ Water Industry Guideline No. 1 – Compliance Systems and Reporting
- ▲ Water Industry Guideline No. 2 – Water Regulatory Information Requirements for Major Retailers

The *Water Retail Code – Major Retailers* is the principal consumer protection document setting out the behavioural standards and minimum requirements to be complied with by major retailers when dealing with their customers. This includes requirements regarding customer sale contracts, customer information obligations, retailer supply obligations, customer service obligations, restrictions, disconnections and restoration of supply.

The Commission established *Water Industry Guideline 1 – Compliance Systems and Reporting* to enable monitoring of retailers compliance with regulatory obligations. Retailers must have, and rigorously adhere to, a sound and robust compliance system. Compliance reports provide assurance to the Commission that a licensee has a credible compliance system in operation which identifies breaches by way of exception reporting.

Performance monitoring under *Water Industry Guideline No. 2 – Water Regulatory Information Requirements for Major Retailers*, provides a means by which the Commission can inform customers, through public reporting, about the level of service they are receiving (at an aggregate level) and reasons for any poor performance. Performance monitoring also provides the information and data required for developing service standards (or targets) and for ongoing assessment of compliance with such standards.

Prior to 1 July 2016, we will review these documents to ensure that the framework is operating effectively and that consumers' interests are protected.

## Setting the service standards for SA Water for 2016/2020

As a part of the overall regulatory framework, we have implemented a regulatory regime which sets binding minimum standards of service to be provided by SA Water to its customers. SA Water is currently required to meet service standards in the following areas:

- ▲ timeliness of customer service responsiveness for telephone calls, complaints, connections and trade waste applications
- ▲ responsiveness to water leaks, bursts and pipe bursts, and
- ▲ responsiveness to sewerage overflows or interruptions.

These service standards influence SA Water's expenditure and therefore impact on the prices paid by customers for SA Water's regulated services.

We will review and re-set SA Water's service standards and targets as part of the next price determination process. SA Water's Regulatory Business Proposal 2016 will include proposed performance targets for each of the current service standards based on its previous performance and the evidence collected through its customer engagement.

While SA Water's customer consultation to date has not identified the need for any new or additional service standards, we will consider any issues raised by stakeholders through our customer consultation on SA Water Price Determination 2016.

This may include amendments to existing service standards, introducing new service standards or introducing additional public reporting requirements. We will have regard to a number of factors in determining the final targets, such as the evidence-based targets proposed by SA Water, levels of historical performance, customer satisfaction with existing performance levels and interstate comparisons.

### Making a Price Determination

We made our first price determination for SA Water in May 2013, setting maximum allowed average revenues for drinking water and sewerage retail services for the three year period from 1 July 2013. SA Water is responsible for setting specific prices (such as supply and usage charges for residential and non-residential customers); however resulting revenues per KL (water) and per customer (sewerage) to SA Water must not exceed the average revenue caps set under the determination.

That determination will expire on 30 June 2016 and we will make a new price determination to apply for the four-year period commencing 1 July 2016.

The framework for making SA Water Price Determination 2016 was finalised in November 2014, through the release of the Commission's Framework and Approach paper. We will implement that framework through:

- ▲ determining the efficient cost of providing SA Water's drinking water and sewerage services during the four-year regulatory period , including capital and operating expenditure requirements, and
- ▲ establishing the maximum revenue that SA Water can earn from those services in order to recover its efficient costs, having regard to any Community Service Obligations and any associated payments from the Government to SA Water.

The determination will set revenue caps only; SA Water will continue to set its own prices, which must comply with the allowed revenue caps.

Prior to making SA Water Price Determination 2016, we will liaise with other regulators and agencies, to ensure coordination and identify regulatory impacts as early as possible.

### ***Reviewing the regulatory framework for Minor and Intermediate Water Retailers***

The current regulatory arrangements that apply to Minor and Intermediate Water Retailers will be reviewed prior to the start of the next four-year regulatory period for those retailers, commencing 1 July 2017. The current arrangements are different to those that apply to

SA Water and were developed having regard to the nature and scale of the operations subject to regulation. For example, we apply a more light-handed form of price regulation to Minor and Intermediate Water Retailers compared to SA Water.

The current regulatory arrangements are designed to introduce greater transparency around existing processes and practices of Minor and Intermediate Water Retailers. Public reporting of the performance of the retailers is a key component of the regime. We will reflect on the outcomes from the current regulatory period in reviewing whether or not changes to the existing regulatory arrangements would better promote the long-term interests of consumers. Consultation with consumers, retailers and other relevant parties will form a major part of the review.

### Reviewing the relevant regulatory instruments

The consumer protection and reporting framework for Minor and Intermediate Retailers is contained in the following regulatory documents:

- ▲ Water Retail Code – Minor and Intermediate Retailers
- ▲ Water Industry Guideline No. 1 – Compliance Systems and Reporting, and
- ▲ Water Industry Guideline No. 3 – Water Regulatory Information Requirements for Minor and Intermediate Retailers.

The *Water Retail Code – Minor and Intermediate Retailers* is the principal consumer protection document setting out the behavioural standards and minimum requirements to be complied with by major retailers when dealing with their customers. This includes requirements regarding customer sale contracts, customer information obligations, retailer supply obligations, customer service obligations, restrictions, disconnections and restoration of supply.

The Commission established Water Industry Guideline 1 – Compliance Systems and Reporting to enable monitoring of retailers compliance with regulatory obligations. Retailers must have, and rigorously adhere to, a sound and robust compliance system. Compliance reports provide assurance to the Commission that a licensee has a credible compliance system in operation which identifies breaches by way of exception reporting.

Performance monitoring under *Water Industry Guideline No. 3 – Water Regulatory Information Requirements for Minor and Intermediate Retailers*, provides a means by which the Commission can inform customers, through public reporting, about the level of service they are receiving (at an aggregate level) and reasons for any poor performance. Performance monitoring also provides the information and data required for developing service standards (or targets) and for ongoing assessment of compliance with such standards.

Prior to 1 July 2017, we will review these documents to ensure that the framework is operating effectively and that consumers' interests are protected.

### Considering the need to establish service standards

For the regulatory period 2014 - 2017, the Commission did not implement service standards for Minor and Intermediate Retailers. As a part of the review of the overall regulatory framework, we will consider implementing a regulatory regime which sets binding minimum standards of service to be provided to water retailers' customers. Should they be implemented, those standards would aim to ensure that retail service providers deal with their customers fairly and openly and provide services of appropriate reliability and quality.

### Making a Price Determination

The Minor and Intermediate Water Retailer Price Determination 2013 will end on 30 June 2017 and a new determination for 2017-2021 will be made prior to that date.

The current determination allows Minor and Intermediate Water Retailers to determine their own prices. At the same time, however, it has introduced greater transparency into the price setting process by requiring Minor and Intermediate Retailers to take Pricing Principles into account and demonstrate that they have done so in setting their prices. The Pricing Principles are largely based on the National Water Initiative Pricing Principles. A price monitoring regime was also established to allow us to monitor and publicly report on the retailers' pricing and cost-recovery outcomes.

We will review the outcomes under the current pricing approach and decide whether or not any changes should be made for the regulatory period commencing 1 July 2017. We will release an Issues Paper and Draft Decision for public consultation, before making a final Price Determination in the first half of 2017.

### ***Setting service standards for electricity transmission for 2018-2023***

The standards of service provided by regulated businesses should be at the level that best meets 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 regulate electricity transmission prices (the Australian Energy Regulator is responsible for electricity transmission price regulation), service standard and price (or revenue) regulation must work together.

We are responsible for setting the service standards which must be met in each year by the major electricity transmission business, ElectraNet. During 2015, we will commence a review of transmission service standards, which will apply for the five-year regulatory period commencing on 1 July 2018.

### ***Reviewing the electricity Retailer Feed-in Tariff***

In December 2014 we made a price determination in respect of the minimum electricity feed-in tariff payable by electricity retailers to customers with solar photovoltaic generators of 5.3 cents per kWh. We also determined to continue the formal Retailer Feed-in Tariff price monitoring regime until 31 December 2016. The price-monitoring regime monitors the extent of competition for solar 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 from 1 January 2017.

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

### *Preparing Ministerial energy price monitoring reports under the Gas and Electricity Acts*

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 prepare a report for the Minister for Mineral Resources and Energy (published on our website) which sets out the findings of our monitoring of 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.

### *Ports Pricing and Access*

We are responsible under the Maritime Services (Access) Act 2002 (MSA Act) for regulating prices and access to six commercial ports in South Australia, operated by Flinders Ports Pty Ltd (Flinders Ports). Under the current ports price regulatory regime, Flinders Ports is allowed to adjust its prices, subject to the requirement that it publish a price list and inform the Commission of changes to that list.

The Commission publishes annual ports price monitoring reports to provide information on prices and commentary on factors underpinning price movements. The current price monitoring regime is due to expire on 30 October 2017.

In 2015 and 2016, we will continue to monitor ports prices and release annual ports price monitoring reports for proclaimed ports in South Australia.

In 2017, we will conduct a review of the ports regulatory framework to determine whether or not the access and price monitoring regimes should apply from 31 October 2017 for a further five years.

## GOAL 2: WE WILL KEEP REGULATED BUSINESSES ACCOUNTABLE BY MONITORING AND REPORTING ON SERVICE STANDARDS AND LICENCE REQUIREMENTS

### *Measure*

Consumers receive essential services at a level of reliability and quality consistent with determined standards.

### *Background*

Goal 1 outlined the way we establish our regulatory frameworks to protect consumers and set prices accordingly. The objective of goal 2 is to ensure consumers can access the benefits that are available from the regulatory frameworks in regulated industries.

We do this by developing and administering robust licence and authorisation arrangements for regulated businesses. This includes ensuring the compliance with licence conditions. We also undertake performance monitoring and reporting on regulated business matters.

Consumers have experienced significant changes over the past three years in the delivery of water services, and it is incumbent on the Commission to make sure that consumers benefit from these reforms and are able to access the opportunities available.

For example, the Commission has established a significant consumer protection regime for the water retail market. It is important that we have an effective monitoring regime for the delivery of these consumer protections.

We also monitor and ensure the efficient administration of the Retailer Energy Efficiency Scheme. The Retailer Energy Efficiency Scheme is an energy efficiency scheme that provides incentives for South Australian households to achieve greenhouse gas reductions and potentially lower their energy bills through reduced energy consumption. It does this through establishing obligations to be met by electricity and gas retailers.

We administer the scheme within the parameters defined by the policy framework and in accordance with the Regulations. Each retailer is obliged to participate in the Retailer Energy Efficiency Scheme as a condition of the licence issued to the retailer by the Commission.

This goal is intended to:

- ▲ Ensure licence and authorisation arrangements for regulated businesses are robust and protect consumers
- ▲ ensure there is effective monitoring and compliance of regulated entities
- ▲ improve understanding of the expectations of regulated industries regarding regulatory issues, and
- ▲ ensure that energy retailers comply with the Retailer Energy Efficiency Scheme.

## *Goal 2 priorities 2015 – 2018*

Our priorities in the coming three years will be:

- ▲ Monitoring and publicly reporting on the operational, customer service, and financial performance of licensees
- ▲ Ensuring that there is a high level of compliance by regulated businesses with licence requirements
- ▲ Administer the SA Water and Minor and Intermediate Water Retailers Price Determinations
- ▲ Continuing to implement the water regulatory regime
- ▲ Successful implementation of the amended Retailer Energy Efficiency Scheme
- ▲ Refining and simplifying licensee interactions and the submission of information

### *Monitoring and publicly reporting on the operational, customer service, and financial performance of licensees*

One of our key functions is to monitor and report on the service levels actually provided to consumers by regulated businesses and to compare them to the standards that we set. We do this to be transparent about levels of compliance and to inform the community about service levels received.

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 public reports no later than the first half of each calendar year. Those reports will provide an overview of the operational and financial performance of licensed water and sewerage providers. We released our first annual performance reports for water in 2014 and, as we increasingly collate data, the reports will focus on comparative performance over time and between entities, with analysis of both pricing and performance against service standards.

In energy networks, we will continue to monitor and report on electricity distribution and transmission and gas distribution network service level outcomes on an annual basis, delivering our public reports in the last quarter of each calendar year.

The Australian Energy Market Agreement provides for State and Territory Governments to have responsibility for developing service reliability standards for electricity and gas network

businesses to ensure network reliability. The Commission has therefore developed and monitors relevant service reliability standards for SA Power Networks (electricity distribution), Australian Gas Networks (gas distribution) and ElectraNet (electricity transmission). The Australian Energy Regulator (**AER**), with reference to the Commission's service reliability standards, sets the efficient level of expenditure required to provide distribution or transmission services at the specified standards.

In addition, the Commission continues to set certain customer responsiveness standards and targets for the energy distribution businesses.

We will also continue our performance monitoring and reporting functions in relation to the Retailer Energy Efficiency Scheme.

### ***Ensuring that there is a high level of compliance by regulated businesses with licence requirements***

Compliance will continue to be a focus, particularly in relation to the Commission's relatively 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.

### ***Administering the first SA Water and Minor and Intermediate Water Retailers Price Determinations***

#### **SA Water**

The SA Water Price Determination 2013 was made in May 2013 and set 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; however resulting revenues to SA Water must not exceed the revenue caps set by the Commission. We will administer the first determination until its expiry, ensuring that SA Water's annual prices comply with the determination.

#### **Minor and Intermediate Water Retailers**

In June 2013, we made our first price determination to apply to Minor and Intermediate Water Retailers. That determination 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 NWI 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.

### ***Continuing to implement the water regulatory regime***

The Water Industry Act 2012 commenced on 1 July 2012 and therefore will have been in place for several years in the strategic planning period.

The implementation of the regulatory framework may present challenges for some retailers. While some aspects of the framework are likely to reflect current practices, we acknowledge that new policies, procedures and processes will be required in some areas. The main focus during this period will be on introducing greater transparency around current practices and understanding existing processes. We will work with retailers and listen to consumers' and consumer groups' views during this period to monitor implementation of the regulatory framework.

We will continue to educate about our roles under the Water Industry Act including informing water retailers and the community of the regulatory regime established under the Act. This will include ensuring that retailers have in place regulatory documents such as a Customer Charter, Complaints & Dispute Resolution Policy and Hardship Policy.

### ***Successful implementation of amended Retailer Energy Efficiency Scheme***

The introduction of the amended Retailer Energy Efficiency Scheme on 1 January 2015 will mean that, at least, the first year of the 2015-2018 period will focus on liaison with all stakeholders, such as retailers, third party providers, community stakeholders and policy makers, to successfully implement the amended Scheme. We will also focus on revising and modifying our REES IT system to ensure it meets the requirements of the amended Scheme and minimises administrative workload and regulatory burden for retailers and third party providers.

### ***Refining and simplifying licensee interactions and the submission of regulatory information***

During the next two years, we will undertake to improve the systems, processes and forms licensees use to provide us with regulatory information required under their licence conditions.

## GOAL 3: WE WILL CONSULT GENUINELY AND PROMOTE COMMUNITY UNDERSTANDING AND ENGAGEMENT

### *Measure*

Stakeholders trust us

### *Background*

We ensure that our decisions are – and are seen to be – consistent with our objectives and not unduly influenced by any party. As such, we conduct our work in as open and transparent a manner as possible.

We recognise that the services we regulate can have an impact on the quality of life of the community of South Australia and the State economy. Consulting with and seeking input from our stakeholders is therefore important to us.

We are committed to engaging with our stakeholders using a variety of methods suited to the work we undertake. Our main stakeholders are:

- ▲ residential, small business and large customers and the interest groups that represent customers more broadly
- ▲ regulated businesses, and
- ▲ Government, Ministers, Members of Parliament and policy makers.

Consultation assists us to understand the implications of potential decisions and allows all stakeholders to provide input on potential impacts or to suggest alternatives and improvements.

We recognise that our decision-making processes must be sound, rigorous and in accordance with the legal obligations placed on us by the Parliament. A systematic approach to consultation helps ensure that all relevant issues are addressed and that administrative processes are legally compliant.

We have developed a Charter of Consultation and Regulatory Practice that outlines our general approach to consultation and regulatory practice within the constraints of these formal requirements.

This goal is intended to:

- ▲ Ensure effective communication with constituencies and industry participants;
- ▲ Ensure effective use of structured information through the website and media; and
- ▲ Ensure our decisions are released in a form which is easy to access and understand.

## *Goal 3 priorities 2015 – 2018*

Our priorities in the coming three years will be:

- ▲ ensuring we use effective consultation processes
- ▲ enhancing our consumer and licensee information and education functions
- ▲ communicating clear and succinct messages to all South Australians
- ▲ continuing to develop relationships with the community

**Ensuring we use genuine consultation processes** We will seek and consider the views 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 ensure our review processes allow the South Australian community to provide submissions on our proposed decisions prior to us reaching our final decision.

We will also refine our consultation methodologies, to identify ways in which we can assist all members of the community to be involved in an easier way.

In 2016, we will review the Charter of Consultation and Regulatory Practice to ensure our consultation processes and practices are the best, most effective way to consult.

### *Enhancing our consumer and licensee information and education functions*

In 2015-2018 we will review the consumer education aspects of our website to enhance and augment the site. We will also review the accessibility and ease of use of the site to ensure it meets the needs of the community. We will continue to build on educating the community through forums, workshops or public meetings.

We will also continue to refine the information we have available for licensees, both on the website and through our education functions.

### *Communicating clear and succinct messages to all South Australians*

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

We will refine our communications to identify ways in which we can deliver our messages in a more succinct and simple way.

### *Continuing to develop relationships with stakeholders*

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

We will 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 engage with Government, to enable us to understand and input into 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 a policy setting role (for example, the provision of customer concessions and the management of transitional pricing impacts).

We will continue to build relationships with other regulators to understand interactions of different regulatory regimes, for example with safety and environmental regulation.

Additionally, as part of our commitment to developing positive relationships with stakeholders, we will utilise a range of stakeholder feedback mechanisms, both formal and informal, to assess our performance. This includes contracting an independent company to undertake a stakeholder survey at least 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: WE WILL CONTRIBUTE TO A STRONG, SUSTAINABLE ECONOMY IN SOUTH AUSTRALIA

### *Measure*

Our regulatory reviews are robust and our regulatory advice is respected

### *Background*

As an independent statutory authority charged with performing economic regulatory functions for the state of South Australia, we can contribute to the South Australian economy being strong and sustainable. We will contribute positively to the South Australian economy through undertaking all our regulatory functions, principally our inquiry and advisory functions, in a manner that has close regard to the goals of the South Australian Strategic Plan and Economic Priorities for the State.

Additionally, we will maintain and build our internal research functions. This will assist us in delivering the overall regulatory program, to respond to any requests for advice from the Government and in reviewing our own regulatory practices and processes. For example, in the planning period we will review our approach to developing, maintaining and applying regulation. We will consider other approaches, both nationally and internationally, and develop a formal framework to govern the Commission's approach to regulation.

This goal is intended to:

- ▲ Facilitate greater consideration of how we regulate
- ▲ Provide an advisory service to Government, when needed, that supports the South Australian economy
- ▲ Respond to regulatory shifts in SA and nationally

## *Goal 4 priorities 2015 – 2018*

Our priorities in the coming three years will be:

- ▲ Review of the Intrastate Rail Access Regime
- ▲ Reviewing the revenues earned from the provision of access to the Tarcoola–Darwin railway
- ▲ Undertaking a review of the National Energy Customer Framework as required under the National Energy Retail Law
- ▲ Undertaking a Ports Pricing and Access Review
- ▲ Providing advice to the SA Government as required
- ▲ Reviewing and implementing regulatory best practice
- ▲ Contributing to an improvement in the productivity of the South Australian economy through the use of our expertise

### *Review of the Intrastate Rail Access Regime*

From early 2015, 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.

### *Reviewing the revenues earned from the provision of access to the Tarcoola–Darwin railway*

In November 2014, we commenced a review of the revenues received from the provision of access to the Tarcoola – Darwin Railway (the Review) during the ten-year period ending 30 June 2013. The review is being conducted under the AustralAsia Railway (Third Party Access) Act 1999 and will be finalised early in the 2015-16 year.

The purpose of the Review is to determine if excessive revenues have been earned by the operators of the Tarcoola - Darwin Railway (the Railway) for the provision of non-competitive railway infrastructure services during the ten-year period ending 30 June 2013.

### *Undertaking a review of the National Energy Customer Framework as required under the National Energy Retail Law*

Under the provisions of the National Energy Retail Law, we will conduct a review of the operation 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 in 2014, the review commenced in February 2015 and will be completed by early 2016.

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.

### ***Undertaking a Ports Pricing and Access Review***

The South Australian ports pricing and access regimes play an important role in the transport and logistics industry, by ensuring that ports users can gain access to ports infrastructure services on fair and commercial terms. The Commission is the ports pricing and access regulator under the Maritime Services (Access) Act 2000.

In 2017, we will conduct a review into the existing pricing and access regimes, to determine whether or not the regimes should continue beyond 30 October 2017 for a further five-year period. Consultation with ports users to understand their experiences in negotiating access to regulated ports services will form a major input into the review.

### ***Providing advice to SA Government as required***

During this Strategic Plan period the Commission will provide advice to the South Australian Government where:

- ▲ Requested by the Treasurer, subject to section 5(f) of the Essential Services Commission Act
- ▲ Requested by the Treasurer or an industry Minister, subject to Part 7 of the Essential Services Commission Act

### ***Reviewing and implementing regulatory best practice***

We will develop a formal framework to govern the Commission's approach to developing, maintaining and applying regulation.

Subject to stakeholder consultation, this better regulation framework would be expected to include:

- ▲ defining principles of good regulatory practice to be adopted by the Commission
- ▲ formalising the Commission's criteria for determining the appropriate degree of regulation to be applied in specific instances (for example, 'light' versus 'heavy' handed)
- ▲ establishing the basis and process for regular (rolling) reviews of existing regulation, to ensure community benefits continue to be maximised
- ▲ establishing performance measures and mechanisms to enable the Commission's regulatory performance to be assessed, consistent with the Commission Value of being accountable to the South Australian community

Under the better regulation framework licensees' obligations would be clear, as would be the Commission's assessment criteria, with the objective of minimising regulatory costs to licensees.

The framework will be published on the Commission's website, and is intended to operate from the 2016-17 financial year.

## PEOPLE, CULTURE AND SYSTEMS

Our people, culture and systems underpin the achievement of our goals and strategies. Our objective in this area is to ensure the Commission is provided with best practice arrangements across a broad range of corporate support services. The focus of this area is on developing, implementing and refining policies and procedures that facilitate the achievement of the Commission's overall objectives, as well as providing services to Core Areas that contribute to the achievement of identified action strategies.

Our priorities in this area are:

- ▲ 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
- ▲ 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
- ▲ ensuring a safe and supportive work environment for our employees and all visitors at our office by having in place a work health and safety management system which meets the highest standards.



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