

2017-18 Annual Report

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

Date presented to Minister: 28 September 2018.

Enquiries concerning the annual report should be addressed to:

Essential Services Commission
GPO Box 2605
ADELAIDE SA 5001

Telephone: (08) 8463 4444
Freecall: 1800 633 592 (SA and mobiles only)
Email: escosa@escosa.sa.gov.au
Web: www.escosa.sa.gov.au

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Table of Contents

Section A: Reporting pursuant to the Public Sector Act 2009, the Public Sector Regulations 2010 and the Public Finance and Audit Act 1987	1
Commission objective and purpose	1
Regulatory functions.....	1
Advisory functions.....	1
Legislation administered by the Commission.....	2
Key strategies and Commission goals.....	3
The Commission’s performance	3
Organisation of the Commission.....	3
Commission’s performance management and development system.....	4
Work health, safety and rehabilitation programs of the Commission and their effectiveness.....	4
Work health and safety and return to work performance.....	5
Fraud detected in the Commission.....	5
Strategies implemented to control and prevent fraud	5
Whistle-blowers’ disclosure	5
Executive employment in the Commission.....	5
Consultants.....	6
Contractors	7
Financial performance of the Commission	7
Other financial information	8
Consultation and stakeholder engagement	8
Inquiries and advice	9
Regulatory.....	11
Water	11
Energy	14
Ports.....	19
Section B: Reporting pursuant to other Acts or regulation.....	20
Water - third party access regime	20
Intrastate Rail	21
Tarcoola–Darwin Railway.....	22
Appendix 1: Performance against Performance Plan 2017-18.....	23
Appendix 2: Audited financial statements 2017-18.....	26

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

Commission objective and purpose

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

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

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

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

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

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

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

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

The Commission adds benefit to the South Australian community through a principles-based and proportionate regulatory approach that protects consumers and enables and encourages regulated entities to demonstrate their performance to their customers.

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

Regulatory functions

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

Advisory functions

The Commission has two broad advisory functions.

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

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

Legislation administered by the Commission

Table 1: Commission's regulatory functions by industry

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

Key strategies and Commission goals

The Commission produces a rolling three-year strategic plan.

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

The four goals in the Strategic Plan 2017-2020 are:

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

The Commission's performance

The Commission produces an annual performance plan for approval by the Treasurer. This sets out the core work program across the full range of the Commission's functions for each financial year.

The Commission's performance against its goals and the Performance Plan 2017-18 are set out in Appendix 1.

Organisation of the Commission

The Commission comprises a [Chairperson and Commissioners](#). It is supported by [26 staff](#) (24.6 full-time equivalents at 30 June 2018), led by the Chief Executive Officer.

At 30 June 2018, the Commission comprised Mr Brett Rowse as Chairperson and Commissioner, Dr Lynne Williams AM as Acting Chairperson and Commissioner, and Ms June Roache, Mr David Round AM and Mr Geoff Knight as Commissioners.

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

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

The Commission's organisational structure is function-based with the following groups:

Consumer Protection and Pricing Group

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

Licensing, Monitoring and Reporting Group

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

Advisory and Research Group

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

Corporate Services Group

This group provides professional support to the Commission. That support includes legal, finance, workforce and wellbeing, corporate governance, risk management, information management, media and communication, strategy, planning and performance, and executive and administrative support.

Commission's performance management and development system

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

Performance management and development system	Assessment of effectiveness and efficiency
The Commission is committed to fostering a positive workplace culture. Employee performance standards and expectations are mutually understood. This commitment is underpinned by a Performance Management Policy and operational guideline.	Active preparation and participation by all managers and employees in a process of performance management is expected and achieved. At 30 June 2018, 100 percent of staff had a Performance Agreement in place.

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

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

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

Table 3: Work health, safety and rehabilitation programs

Work health, safety and rehabilitation programs	Effectiveness
Incident/injury management	Achieved – nil notifiable incidents during 2017-18
Hazard management	Achieved – hazards responded to within required timeframes
WHS policies	Achieved – all policy and procedure reviews completed in required timeframes
Training	Achieved – WHS training plan in place and completed
Safe work systems	Achieved – scheduled activities undertaken as required
Workplace inspections	Achieved – workplace inspections conducted quarterly
Consultation with staff	Achieved – staff actively consulted on WHS issues and WHS policy reviews
Return to work	Achieved – nil incidents during 2017-18
Induction	Achieved – all new employees and contractors undertook an induction on their first day in 2017-18
Employee Assistance Program	Achieved – available to all staff for 2017-18
Psychological health strategies	Achieved – all strategies implemented in 2017-18
Wellbeing Plan	Achieved – activities undertaken during 2017-18

Work health and safety and return to work performance

Table 4: Work health, safety and rehabilitation programs

	2017-18	2016-17	% Change
Workplace injury claims			
Total new workplace injury claims	0	0	0
Fatalities	0	0	0
Seriously injured workers	0	0	0
Significant injuries (where lost time exceeds a working week, expressed as a frequency rate per 1000 FTE)	0	0	0
Work health and safety regulations			
Number of notifiable incidents (WHS Act 2012, Part 3)	0	0	0
Number of provisional improvement, improvement and prohibition notices (WHS Act 2012 Sections 90, 191 and 195)	0	0	0
Return to work costs			
Total gross workers compensation expenditure (\$)	0	0	0
Income support payments – gross (\$)	0	0	0

Fraud detected in the Commission

No instances of fraud were detected within the Commission during 2017-18.

Strategies implemented to control and prevent fraud

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

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

Whistle-blowers' disclosure

Table 5: Whistle-blowers' disclosure

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

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

Executive employment in the Commission

Table 6: Executive employment

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

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

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

Consultants

Use of consultants

The Commission is a small office with broad regulatory, inquiry and advisory responsibilities. It has focussed on attracting and retaining expert staff in-house, and only supplements the expertise of its own staff with specialist technical, economic and other advisors and consultants when it is necessary and efficient to do so.

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

Details are summarised in Table 7 below.

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

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

Contractual arrangements

Details of the Commission's procurement contracts for 2017-18 are disclosed on the [South Australian Tenders and Contracts website](#).

Table 7: Consultant projects 2017-18

Consultants	Purpose	Value
Consultancies below \$10,000 each		
Record & Archive Services	eDRMS Objective integration	\$3,960
Stillwell Management Consultants	Commission survey	\$6,000
PeopleVision Pty Ltd	Business Continuity Review	\$7,700
	Subtotal	\$17,660
Consultancies above \$10,000 each		
Bureau of Meteorology	National performance reporting data	\$10,547
Cardno (QLD) Pty Ltd	Audit of SA Water's compliance with operational service standards	\$20,500
KPMG Australia	Retailer Energy Efficiency Scheme (REES) compliance framework review	\$21,804
Value Adviser Associates Pty Ltd	Inquiry into the South Australian bulk grain export supply chain costs - reasonable rate of return	\$26,600
Oakley Greenwood Pty Ltd	Economic assessment of electricity distribution reliability service standard options	\$53,414
Wallis Research Group Pty Ltd	Economic assessment of electricity distribution reliability service standard options	\$72,990
	Subtotal	\$205,855
Total all consultancies		\$223,515

Contractors

Table 8 provides a summary of external contractors that have been engaged by the Commission, the nature of the work undertaken and the total cost of the work undertaken.

Also, see the [South Australian Tenders and Contracts website](#) for a list of all SA Government-awarded contracts for goods, services and works. The website also provides details of across government contracts.

Table 8: Contractors 2017-18

Contractor	Purpose	Value
Composed Pty Ltd	Editorial services	\$3,785
Oakley Greenwood Pty Ltd	Licensing services	\$5,456
Chillogy Pty Ltd	Editorial services	\$6,050
Hays Specialist Recruitment	Temporary staffing	\$14,824
Rob Hoepner	Temporary staffing	\$25,767
Total all contractors		\$55,882

Financial performance of the Commission

The following section summarises the Commission's overall financial position. Full audited financial statements for 2017-18 are in Appendix 2.

Result

The Commission's 2017-18 result was a surplus of \$0.20 million, which is favourable by \$1.05 million to the budgeted deficit of \$0.85 million. The revenue was \$5.80 million and expenses were \$5.60 million. The deficit budget reflected the intent to reduce the surplus in the electricity and gas licence fee funds held on the Commission's behalf.

Revenue

The Commission's revenue from all sources in 2017-18 was \$5.80 million. This result was \$0.10 million more than 2016-17. Revenue was sourced

from the following industries: Water \$3.94 million; Energy (Electricity and Gas) \$1.16 million; Ports, Rail and Other Sources \$0.70 million.

Each year, the Commission invoices and collects funds that it must transfer to various parties. The parties to which it transfers funds are the Australian Energy Market Commission, the Technical Regulator, the Department of Treasury and Finance and the (former) Department of Environment, Water and Natural Resources. These transfers are 'Administered Items'. The Commission invoiced licence and administration fees of \$18.45 million in 2017-18 (\$17.65 million in 2016-17) and transferred \$13.36 million (\$12.92 million in 2016-17) as Administered Items (refer to Notes 9 and 26 in Appendix 2 for further details).

The Commission invoiced water licence fees totalling \$9.87 million (\$9.88 million in 2016-17), with the amount of those fees set by the relevant industry Minister. The SA Water licence fee was the largest, at \$9.5 million. Smaller water licensees contributed further licence fees totalling \$0.37 million.

After the required transfers of \$5.93 million as Administered Items, the Commission's water licence fee revenue was \$3.94 million.

The Commission invoiced energy licence fees (the amounts of which are set by the relevant industry Minister) of \$7.73 million in 2017-18 (\$7.01 million in 2016-17) and retail energy administration fees of \$0.86 million in 2017-18 (\$0.76 million in 2016-17). After the required transfer of \$7.43 million as Administered Items, the Commission's energy licence and administration fee revenue was \$1.16 million (\$0.65 million in 2016-17).

The South Australian Government funds the Commission's regulation of ports and intrastate rail, while the South Australian and Northern Territory Governments jointly fund its Tarcoola–Darwin rail activities.

In 2017-18, the South Australian Government provided \$0.53 million (\$0.68 million in 2016-17) in funding for ports and rail activities, while the Northern Territory Government provided funding of \$0.11 million (\$0.15 million in 2016-17).

Expenses

The total expenditure in 2017-18 was \$5.60 million (\$5.07 million in 2016-17). This was an increase of \$0.53 million and relates directly to changes in the work program during the year.

The salary and wage expense was the largest expenditure item, totalling \$4.02 million (\$3.44 million in 2016-17). The supplies and services expense, which includes the use of consultants, was \$1.40 million (\$1.39 million in 2016-17).

Other financial matters

Capital expenditure

The Commission's capital expenditure in 2017-18 was \$0.01 million (\$0.04 million in 2016-17). This expenditure was funding for investigations into a regulatory reporting project.

Overseas travel

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

There were [two overseas trips](#) in 2017-18.

Other financial information

Nil to report.

Consultation and stakeholder engagement

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

Genuine and effective engagement builds the community's understanding of the sectors the Commission regulates, and of the regulatory issues that are important to this state and specific communities. Given this, the Commission uses a variety of methods to engage and consult with the

community, depending on the work it is undertaking.

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

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

Consumer Advisory Committee

The Commission has a Consumer Advisory Committee, established under section 17 of the ESC Act. The Consumer Advisory Committee informs the work of the Commission and provides valued input in the Commission's consultation and decision-making processes.

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

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

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

The membership of the [Consumer Advisory Committee](#) is outlined in the financial statements at Note 4.

Small Grants Program

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

The Commission received and approved three applications for a small grant during 2017-18, totaling \$19,950. These were:

- ▶ Conservation Council received a small grant of \$5,000 for development of an energy policy online knowledge and collaboration hub.
- ▶ Business SA received a small grant of \$4,950 to procure the services of a specialist consultant to represent South Australian businesses, particularly small businesses, on the Energy Security Board's National Energy Guarantee technical working group.
- ▶ SACOSS received a small grant of \$10,000 to undertake an overseas study tour in Scotland, in advance of responding to SA Water's upcoming regulatory business plan, as part of the SA Water Regulatory Determination 2020. The small grant is a contribution to airfares, travel and accommodation expenses.

Inquiries and advice

During 2017-18, the Commission commenced two inquiries, continued two inquiries (under Part 7 of the ESC Act) and provided formal advice to the Treasurer (under section 5(f) of the ESC Act).

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

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

The Commission continued its [inquiry](#) into how it regulates small-scale utility operations. This inquiry aims to ensure the Commission's regulatory

frameworks applied under industry regulation Acts are consistent with its primary statutory objective, are proportionate, and are responsive to recent and emerging issues.

The Commission commenced this inquiry in 2016-17 to consider appropriate regulatory arrangements to apply to small-scale water supplies, sewerage services, non-national market electricity and reticulated liquefied petroleum gas supplies.

The Commission released an issues paper in August 2016. The inquiry was then reprioritised due to other inquiries and statutory work, with the inquiry to be completed in 2018-19.

Inquiry into the licensing arrangements for generators in South Australia

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

The Commission released the final report in August 2017. The Commission found that there is a need for it to continue to apply transitional technical conditions within licences for new electricity generators which are to be connected to the National Electricity Market (regardless of generation type) – on the basis that this will protect South Australian consumers' long-term interests with respect to the price, quality and reliability of essential services.

The Commission will continue to monitor and review developments in this sector, with a particular focus on changes in National Electricity Market rules and associated arrangements, with a view to removing its transitional local technical licence conditions should they become redundant in the future.

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

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

The Commission submitted a final report to the Treasurer in October 2017.

The Inquiry found that the most cost effective options for improving reliability of supply on the Eyre Peninsula in the short-term (within the next two years) include installing diesel generators near Yadnarie, Ceduna and Streaky Bay.

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

Inquiry into the South Australian bulk grain export supply chain costs

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

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

The inquiry is being undertaken in two parts:

- ▶ first, inquiring into South Australian bulk grain export supply chain costs over the past 10 years, and

- ▶ second, should areas be identified where bulk grain supply chain costs are inefficient, options will be provided for addressing those inefficiencies.

A draft report on part one of the Inquiry was provided to the Treasurer in June 2018. The inquiry is expected to be completed in December 2018.

Request for advice on the South Australian local government rate capping scheme

The Local Government (Rate Oversight) Amendment Bill 2018, which was introduced into Parliament on 20 June 2018, proposes a statutory framework for the regulation of local government general rates. In light of the prompt timeframe proposed for the implementation of the scheme should the Bill pass into law, the Treasurer has sought the Commission's advice on:

- ▶ the preparation of a 'local government rate capping and variation framework,' and
- ▶ the future operational requirements of the scheme.

A consultation paper was released in August 2018. The Commission must provide the advice to the Treasurer by 1 December 2018.

Regulatory



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

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

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

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

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

Water price regulation

SA Water regulatory determination 2020: framework and approach

In November 2017, the Commission commenced developing, through a public consultation process, the SA Water regulatory determination 2020 framework and approach.

This next determination will challenge SA Water to:

- ▶ provide water and sewerage services at the lowest sustainable price for the quality and reliability levels valued by customers, and
- ▶ have in place sound long-term asset management, operating and financing strategies, which support the provision of those services for customers of today and tomorrow.

These intended outcomes are consistent with the Commission's primary objective of protecting the long-term interests of consumers with respect to the price, quality and reliability of essential services.

The final report was released in July 2018.

Variation to 2013-17 price determination for minor and intermediate retailers to extend its operation

A variation to the 2013-17 price determination for minor and intermediate water retailers was made in June 2018.

In June 2013, the Commission made a price determination to apply to minor and intermediate water retailers to apply for the period 1 July 2013 to 30 June 2017 (**Price Determination**). That determination was subsequently extended to 30 June 2018.

The key requirement of the Price Determination is that minor and intermediate water retailers comply with the National Water Initiative Pricing Principles when charging for water and sewerage services and report to the Commission on how they are complying with those principles.

In May 2018, the Commission released for public consultation a [draft subsequent determination](#) to further extend the term of the Price Determination. Following the public consultation period, the [final decision](#) was released in June 2018 with the subsequent determination to take effect from 1 July 2018.

Water licensing

During 2017-18, the Commission issued two new licences, transferred one licence, varied two existing licences and issued two exemptions from the requirement to hold a licence (with the approval of the Minister):

- ▶ Water retail licence – District Council of Peterborough
- ▶ Water retail licence – Monarto Water Network Ltd
- ▶ Water retail licence transfer – Lightsview Re-Water Supply Co Pty Ltd
- ▶ Water retail licence variation – Alano Utilities
- ▶ Water retail licence variation – The Flinders Ranges Council
- ▶ Exemption from requirement to hold a water retail licence – Glen Meadow Community Waste Association Inc.
- ▶ Exemption from requirement to hold a water retail licence – Whyalla Golf Club Inc.

A list of all water retail licences and exemptions is available in the [water licence register](#) on the Commission's website.

Water codes and guidelines

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

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

- ▶ [Water Retail Code – Major Retailers](#)
- ▶ [Water Guideline No 2 – Information requirements for major retailers.](#)

The Commission has established a Code and a guideline which apply to retailers with up to and including 50,000 connections:

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

Water retailer performance

One of the ways in which the Commission drives retailers' accountability to their customers is through public monitoring and reporting on service standard and licence requirement outcomes.

As a part of that process, the Commission publishes an annual regulatory performance report for SA Water, as South Australia's major water retailer, and a separate report in relation to the performance of minor and intermediate water retailers.

SA Water's performance

The Commission published the [SA Water Regulatory Performance Report 2016-17](#) for drinking water and sewerage services, in December 2017. Key performance outcomes were:

- ▶ SA Water met 17 out of 18 service standards.
- ▶ SA Water received 2.50 complaints per 1,000 customers in 2016-17, up from 2.29 complaints per 1,000 customers in 2015-16.
- ▶ SA Water completed 98 percent of water service restorations on time, with an average customer outage duration of 195 minutes.
- ▶ SA Water completed 95 percent of sewerage service restorations on time, with an average customer outage duration of 384 minutes.
- ▶ SA Water completed 97 percent of water and 98 percent of sewerage new customer connections on time.

Comparative (across the whole of Australia) pricing, finance, assets and water resource data are provided through the Australian Bureau of Meteorology's National Performance Report: Urban Water Utilities. The Bureau prepares that report on behalf of State and Territory Governments, and economic regulatory agencies.

Minor and intermediate retailer performance

The Commission published the Minor and Intermediate Retailers Regulatory Performance Report 2016-17 in May 2018. Key observations were:

- ▶ Seventy percent of retailers reported that they are compliant with all of the relevant pricing principles. Sixty-six percent of retailers also reported that they are fully recovering the costs of service provision. Of the retailers that reported operating deficits, many are still transitioning and are gradually adjusting prices to limit the price shock to customers.
- ▶ The scale and scope of water and sewerage services offered varies considerably across retailers, resulting in a spread of customer prices and service performance.
- ▶ The estimated residential water bills ranged between \$538 and \$1,412. For sewerage services, estimated bills ranged between \$240 and \$964.
- ▶ The number of complaints rose to 375, compared to 283 in 2015-16. The Energy and Water Ombudsman SA received two complaints in 2016-17.
- ▶ At 30 June 2016, 13 retailers reported that they had 96 residential customers in total participating in their hardship programs and 27 retailers reported having 5,026 residential customers in total on a flexible payment arrangement.
- ▶ Retailers took fewer legal actions to recover debt and restricted water supply to fewer customers with long-term outstanding bills.
- ▶ The number of reported unplanned drinking water and sewerage interruptions rose to 156, compared to 143 in 2015-16.

Water compliance

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

Within that framework, the Commission has established the [Water Guideline No 1 – Compliance and reporting](#), which supports the compliance regime.

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

Compliance monitoring

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

In 2016-17, SA Water met 17 out of 18 service standards set by the Commission. It did not meet the service standard for timeliness in processing connection applications due to using unreliable data to measure performance.

The Commission conducted an external audit of all four connection service standards, to gain assurance as to SA Water's data collection, processes, management and reporting systems, in respect of its connection service standards. This external audit is in addition to the remedial actions that have already been implemented by SA Water in response to the issue. Further information on the outcome of the audit and remedial actions undertaken will be published in the SA Water Regulatory Performance Report 2017-18.



Energy

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

The Commission's responsibilities in 2017-18 included:

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

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

Monitoring South Australian retailer-paid feed-in tariffs

The first monitoring report on South Australian retailers' offers to solar customers, including retailer-paid feed-in tariffs (**R-FiTs**), was released in July 2017. It found that customers have a reasonable choice of retailer-paid feed-in tariffs, increases in retailer-paid feed-in tariffs appear to reflect underlying wholesale electricity cost movements, and that South Australian solar customers can now access the highest R-FiTs in Australia.

The first [R-FiT monitoring report](#), covered the period 1 January 2017 to 31 July 2017. The Commission continues to monitor R-FiTs in tariffs and solar offers in South Australia.

Energy licensing

During 2017-18, the Commission issued 13 new licences and three variations to an existing licence;

- ▶ Electricity generation licence - Bungala One Operations Pty Ltd
- ▶ Electricity generation licence - Bungala Two Operations Pty Ltd
- ▶ Electricity generation licence - Electrolux Home Products Pty Ltd
- ▶ Electricity generation licence - Greentricity Pty Ltd
- ▶ Electricity generation licence - Hornsdale Power Reserve Pty Ltd
- ▶ Electricity generation licence - HWF 3 Pty Ltd
- ▶ Electricity generation licence - LMS Energy Pty Ltd
- ▶ Electricity generation licence - Peterborough Solar Farm Pty Ltd
- ▶ Electricity generation licence - Scentre Shopping Centre Management (SA) Pty Ltd
- ▶ Electricity generation licence - SSE Australia Whyalla Solar Pty Ltd
- ▶ Electricity generation licence - Willogoleche Power Pty Ltd
- ▶ Electricity distribution licence - Enerven Energy Infrastructure Pty Ltd
- ▶ Electricity generation and distribution licence - EN Project Company One Pty Ltd
- ▶ Electricity generation licence variation - EDL Group Operations Pty Ltd
- ▶ Electricity generation, distribution licence variation – Municipal Council of Roxby Downs, and
- ▶ Electricity distribution licence variation – SA Power Networks

The Commission also received notification of one surrender of a licence from Flinders Power Partnership.

The Commission notes that energy licensing activities have increased significantly over the past year, increasing from an average of four per year since 2013-14 to 16 in 2017-18.

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

Energy codes and guidelines

The Commission has made seven industry codes that apply to the electricity and/or gas industries. Compliance with relevant codes is a mandatory condition of energy licences issued by the Commission.

- ▶ [Electricity Distribution Code](#)
- ▶ [Electricity Transmission Code](#)
- ▶ [Electricity Metering Code](#)
- ▶ [Gas Distribution Code](#)
- ▶ [Gas Metering Code](#)
- ▶ [Reticulated LPG Industry Code](#)
- ▶ [Prepayment Meter System Code](#)

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

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

Electricity distribution code clarification

In January 2018, the Commission varied the Electricity Distribution Code to clarify the operation of the Guaranteed Service Level scheme that applies to SA Power Networks.

The variation reflects the Commission's decisions in 2008 and 2014, and clarifies that when an interruption occurs that is beyond the control of SA Power Networks (for example, bushfire, lightning, storm, flood), and it is unsafe to restore supply, that interruption is excluded from the Guaranteed Service Level scheme.

The variation to the Electricity Distribution Code was not a change in regulatory policy or position, but a clarification of the intended operation of the scheme.

SA Power Networks 2020 reliability standards review

The Commission commenced a review of SA Power Networks 2020 reliability standards in December 2017.

The Commission reviews the jurisdictional service standards that apply to SA Power Networks every five years, prior to the commencement of a new price regulation period. The outcome of the review will be the establishment of new reliability standards for SA Power Networks for the 2020-2025 period.

Draft standards were released in August 2018 with the final standards to follow in December 2018.

Energy businesses performance

One of the ways in which the Commission drives energy businesses' accountability to their customers is through public monitoring and reporting on service standards and licence requirement outcomes.

As a part of that process, the Commission published the [Energy Networks' regulatory performance report for 2016-17](#) in relation to licensed energy networks operating in South Australia. The 2016-17 regulatory performance report was published in December 2017. Key performance outcomes were:

SA Power Networks

- ▶ In 2016-17, SA Power Networks met all ten service standards.
- ▶ There were 125,462 Guaranteed Service Level payments made, totaling \$28.4 million. Ninety-seven percent of Guaranteed Service Level payments were made for duration of interruptions, and were mainly related to protracted outages following the severe weather event on 27-28 December 2016.
- ▶ There were nine Major Event Days in 2016-17, the highest incidence recorded and the highest contributor to interruptions on the distribution network since 2005-06. On average, there are three Major Event Days per year which impact distribution network reliability.
- ▶ For the customer service category, SA Power Networks met the standards for responsiveness to telephone calls and written enquiries.
- ▶ Weather patterns during the 2016-17 period caused more severe weather events, in addition to Major Event Days, than in previous years (confirmed by the Bureau of Meteorology). Such events can materially affect the performance of network reliability.

ElectraNet

- ▶ In 2016-17, ElectraNet met all three restoration service standards.
- ▶ There was one transmission line failure during the year (not including the events of 28 September 2016 that was the subject of a separate investigation and report). ElectraNet met the exit point reliability standard timeframe for restoring the transmission line capacity after the line failure.
- ▶ The number of interruptions was relatively low, at nine. However, the system minutes off supply has increased significantly to 13 minutes due to severe weather events during the year (in particular, the storms which occurred on 8 September and 28 September 2016).

Australian Gas Networks

- ▶ No formal service standards have been set for Australian Gas Networks for the current regulatory period; however, the following three service level measures are monitored:
 - responsiveness of the leaks and emergencies telephone number
 - responsiveness to public reporting of gas leaks, and
 - customer interruptions.
- ▶ The Commission has reviewed Australian Gas Networks' performance and notes that there were no significant, protracted interruptions to customers supply on the gas distribution network in the year.

Off-grid electricity and LPG retailers and distributors

In December 2017, the Commission released the Off-Grid Networks' Performance Report for 2016-17.

- ▶ For electricity, disconnections for non-payment increased from 36 in 2015-16 to 75 in 2016-17. Unplanned supply interruptions increased from 71 in 2015-16 to 176 in 2016-17. The majority of the unplanned interruptions (around 83 percent) were caused by storms, lightning and switching issues.
- ▶ For LPG, disconnections for non-payment increased from one in 2015-16 to three in 2016-17. There were no unplanned supply interruptions reported for 2016-17.

Energy compliance

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

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

- ▶ [Energy Industry Guideline No 4 – Compliance Systems and Reporting](#)
- ▶ [Retailer Energy Efficiency Scheme Bulletin No 18 – Compliance Framework](#)

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

Compliance monitoring

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

As at March 2018, SA Power Networks had not met its two reliability targets in the CBD category. SA Power Networks has advised that the primary cause of the CBD interruptions was cable faults on the 11kV network, and is putting into effect an action plan to address the performance outcomes. The Commission and the Technical regulator are monitoring and assessing the effectiveness of the plan. Further information, will be published in the Energy Networks' Regulatory Performance Report 2017-18.

Power Line Environment Committee

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

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

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

Retailer Energy Efficiency Scheme

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

The Commission administers REES and reports to the Minister for Mineral Resources and Energy annually on retailers' progress in achieving the required targets.

REES 2017 outcomes

The key operational outcomes for REES in 2017 were:

- ▶ The overall annual REES targets were achieved and all obliged retailers met their individual targets.
- ▶ A total of 2,242 energy audits were delivered and obliged retailers applied an additional 5,195 energy audit credits (earned in prior years), thereby exceeding the target by 31 percent.
- ▶ Energy savings of 2,549,093 gigajoules (GJ) were delivered, which was 38 percent higher than that delivered in 2016. When prior year credits were included, the Energy Efficiency Target was exceeded by 46 percent. Many obliged retailers have significant credit balances to carry over towards 2018 targets.
- ▶ REES activities resulted in energy savings of 2,549,093 GJ, equivalent to powering 142,749 residential households consuming 5 megawatt hours (MWh) per year (1 MWh energy consumption is equivalent to 3.6 GJ).
- ▶ The proportion of activities conducted in regional and remote areas increased to 14.8 percent in 2017, compared to 9.6 percent in 2016.
- ▶ Of the total energy savings delivered, 9.2 percent were delivered to priority group households. When prior year credits are included, the 2017 Priority Group Energy Efficiency Target was exceeded by 29 percent.

- ▶ 77 percent of energy savings were from commercial activities; 76 percent from commercial lighting and 1.4 percent from commercial showerheads. In 2017, 4,174 businesses benefitted from REES activities.
- ▶ Over 182,000 installed energy efficient lights were reported in commercial premises. A further 180,000 installed energy efficient lights were reported in residential premises.
- ▶ Energy savings from residential activities fell by 14 percent, but still account for 88 percent of activities delivered.
- ▶ There was a 24 percent decrease in the number of premises receiving a REES activity or energy audit compared to 2016. This reflects the fact that 15 percent fewer activities and audits were delivered in 2017 as compared to 2016.

REES Code review 2017

During 2017-18, the Commission continued the review of the REES Code.

Submissions received during the review raised matters for consideration regarding the administration of REES.

The Commission's decision on the REES Code will be released in 2018-19.

Ports

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

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

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

The Maritime Services (Access) Act 2000 provides for access and price regulation of South Australian ports services.

The Commission regulates three types of ports services:

- ▶ essential maritime services – subject to price regulation with price monitoring
- ▶ regulated services – subject to the ports access regime, which operates under a negotiate/arbitrate framework, and
- ▶ maritime services – broader services subject to a range of review and notification processes, including:
 - notification of changes in pilotage charges (under a price monitoring regime)
 - development of service standards as appropriate, and
 - keeping ports industries under review to determine whether or not regulation is required.

Access disputes

Part 3 of the Maritime Services (Access) Act 2000 provides for conciliation and arbitration to occur for disputes over access to Regulated Services that cannot be otherwise resolved between the parties.

No access disputes were notified to the Commission in 2017-18.

Ports price monitoring report 2017

In November 2017, the Commission published a [2017 Ports Price Monitoring Report](#), which provides information on price movements for essential maritime services and pilotage services charges across the six proclaimed ports operated by Flinders Ports Pty Ltd.

Ports pricing and access review 2017

The Maritime Services (Access) Act 2000 requires the Commission to review the South Australian ports access regime every five years.

The Commission commenced a 2017 Ports Pricing and Access Review in September 2016. It released a final report in September 2017, recommending that the current access and pricing regime should continue for a further five years. This recommendation was accepted by the Minister for Transport in October 2017.

Section B: Reporting pursuant to other Acts or regulation

Water - third party access regime

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

The Water Industry Act 2012 establishes a water industry third party access regime and appoints the Commission as the regulator of that regime. The Regime provides a framework for the negotiation of access to certain water and sewerage infrastructure services, with the potential for arbitration should negotiations fail.

As the regulator of the Regime, the Commission has the function of monitoring and enforcing compliance with the requirements of the Regime and is responsible for resolving an access dispute by conciliation, and determining whether a dispute should be referred to arbitration.

The Commission's role includes monitoring regulatory compliance to ensure the access provider:

- ▶ has a sound and effective compliance program
- ▶ reports non-compliances of the type required to be reported during the relevant reporting period, and
- ▶ addresses the impact of such non-compliance on customers and other entities.

Monitoring outcomes

In 2017-18, one information kit was downloaded from SA Water's website but SA Water received no formal requests for third party access under the Water Industry Act.

SA Water did not enter into any commercial agreements with access seekers outside of the third party water access regime during 2017-18.

The Commission was not notified of any non-compliance or access disputes in 2017-18.

The Commission will undertake a review of the scheme in 2018-19.



Intrastate Rail

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

The Commission has regulated South Australia's intrastate rail access regime, as set out in the Rail (Operations and Access) Act 1997, since March 2004.

The South Australian rail access regime expired on 31 October 2015, and subordinate legislation to continue applying the regime came into operation on 29 September 2016.

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

The Commission did not receive any notifications of non-compliance, access notifications or access disputes from 1 July 2017 to 30 June 2018.

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

Commission's activities

The Commission undertook the following activities between 1 July 2017 and 30 June 2018:

- ▶ commenced a review of the South Australian rail access regime regulatory guidelines. The review focuses on ensuring the guidelines continue to provide effective protection to existing and prospective railway users, are clear, represent contemporary practice, and minimise costs. The Commission expects to finalise this review in the second half of 2018.
- ▶ Monitoring regulatory compliance to ensure that the rail operator:
 - has a sound and effective compliance program
 - reports non-compliances of the type required to be reported during the relevant reporting period, and
 - addresses the impact of such non-compliance on customers and other entities.

Financial information

The South Australian Government funds the Commission's intrastate rail regulatory activities. Table 8: Rail regulatory revenues and expenses summarises revenues and expenses for these activities for 1 July 2017 to 30 June 2018, together with comparative figures for the previous regulatory period.

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

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

Table 8: Rail regulatory revenues and expenses

	2017-18 \$'000	2016-17 \$'000
Opening surplus	55	42
Revenue		
SA Government contribution	190	215
Total revenue	190	215
Expenses		
Salaries and on-costs	138	143
Administration	47	59
Total expenses	185	202
Annual surplus/(deficit)	5	13
Closing surplus	60	55



Tarcoola–Darwin Railway

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

The access regime, as set out in the AustralAsia Railway (Third Party Access) Code, is intended to ensure that access to railway infrastructure services provided by a monopoly operator is available on reasonable commercial terms.

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

The Commission did not receive any notifications of non-compliance, access notifications or access disputes during 2017-18.

Commission's activities

During 2017-18, the Commission undertook the following activities:

- ▶ commenced a review of the Tarcoola–Darwin rail access regime regulatory guidelines. The review focuses on ensuring the guidelines continue to provide effective protection to existing and prospective railway users, are clear, represent contemporary practice, and minimise costs. The Commission expects to finalise this review in the second half of 2018.
- ▶ Monitoring regulatory compliance to ensure that the rail operator:
 - has a sound and effective compliance program
 - reports non-compliances of the type required to be reported during the relevant reporting period, and
 - addresses the impact of such non-compliance on customers and other entities.

Financial information

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

Table 9: Rail regulatory revenues and expenses summarises revenues and expenses for 2017-18, together with comparative figures for the previous year. Table 9 shows a surplus for 2017-18. Both revenue and expense amounts vary due to timing of regulatory reviews.

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

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

Table 9: Rail regulatory revenues and expenses

	2017-18 \$'000	2016-17 \$'000
Opening surplus	113	52
Revenue		
SA Government contribution	105	145
NT Government contribution	110	145
Total revenue	215	290
Expenses		
Salaries and on-costs	183	162
Administration	62	67
Total expenses	245	229
Annual surplus/(deficit)	-30	61
Closing surplus	83	113

Appendix 1: Performance against Performance Plan 2017-18

The Commission's performance against its approved Performance Plan 2017-18 is summarised as follows, showing status of projects and ongoing work at 30 June 2018.

There were 91 projects listed in the Commission's Performance Plan 2017-18, together with 17 additional projects. Of these 108 deliverables, 84 were achieved in the financial year, with three stopped and 21 reprioritised to continue into 2018-19.

A summary of 2017-18 performance against the major projects or initiatives in the Commission's Performance Plan 2017-18 is presented in the Table 11 below:

Table 11: Performance Plan 2017-18 Summary of Initiatives and achievement

Industry	Key initiative	Achievement
GOAL 1: We will establish consumer protection frameworks to promote the delivery of both service levels valued by consumers and efficient prices.		
	Finalise SA Water Regulatory Determination 2020 Framework and Approach	In progress
	Collect, analyse and report on pricing outcomes by regulated entities	Complete
	Develop and publish Energy Offer Comparison Report 2017 on energy retail offer prices	Complete
	Develop service standard framework for SA Power Networks to apply from 1 July 2020	In progress
	Finalise 2017 review of ports pricing and access regime	Complete
	Publish annual report on Commission's activities related to administration of the intrastate rail access regime	Complete
	Review Tarcoola–Darwin rail Guidelines	In progress
	Review the intrastate rail Information Kit to ensure that it remains up to date	In progress
GOAL 2: We will keep regulated businesses accountable by monitoring and reporting on service standards and licence requirements.		
	Develop and publish Water Regulatory Performance Reports on the performance of SA Water and minor and intermediate retailers	Complete
	Develop and publish Energy Regulatory Performance Reports on the performance of network, LPG and off-grid businesses	Complete

Industry	Key initiative	Achievement
	Develop and publish annual report on Commission's activities related to administration of the Water Third Party Access regime	Complete
	Develop and publish annual report on Commission's activities related to the interstate rail access regime Tarcoola-Darwin railway third party access code	Complete
	Administer licencing regime and issues licences and exemptions as required.	Complete
	Administer industry Codes and Guidelines	Complete
	Administer Power Line Environment Committee Program, and publish the Power Line Environment Committee annual report	Complete
	Determine allocation of 2017 REES targets and publish an annual report on outcomes	Complete
	Review and assess retailer REES compliance plans and information	Complete
GOAL 3: We will engage genuinely with our stakeholders to achieve the best possible decisions and build understanding of economic and regulatory issues.		
	Undertake a review of the Commission's Better Regulation Framework	Complete
	Review the Commission's Charter of Consultation and Regulatory Practice to ensure the Commission's regulatory processes, including engagement processes, best promote its objectives	In progress
	Coordinate and administer the Commission's Consumer Advisory Committee	Complete
	Develop and publish the Commission's Strategic Plan 2017-2020 and Performance Plan and Budget 2017-18	Complete
	Publish the Commission's Annual Report 2016-17	Complete
GOAL 4: We will add value to South Australia by delivering impartial, credible and robust regulatory and economic advice.		
	Inquiry into licensing arrangements under the Electricity Act 1996 for inverter-connected generators	Complete
	Inquiry into reliability and quality of electricity supply on the Eyre Peninsula	Complete

Industry	Key initiative	Achievement
	Inquiry into regulatory arrangements for small-scale and off-grid water, gas and electricity services	In progress
	Provide advice to the South Australian Government under ESC Act as referred from the South Australian Government	Ongoing
People, culture and systems		
	Publish Commission's Annual Report 2016-17	Complete
	Undertake end of year financial review and finalisation of accounts including Auditor-General review	Complete
	Develop Workforce Strategy 2018-2021 and Information Technology Strategy 2018-2021	Complete
	Develop the Performance Plan and budget for 2017-18	Complete
	Develop and publish Strategic Plan 2017-2020	Complete
	Conduct biannual review of Enterprise Risk Register	Complete
	White Ribbon accreditation	In progress
	Review of Corporate Governance Framework	Complete

Appendix 2: Audited financial statements 2017-18

Essential Services Commission

Financial Statements

For the year ended 30 June 2018

Certification of the Financial Statements

We certify that the attached general purpose financial statements for the Essential Services Commission:

- are in accordance with the accounts and records of the Essential Services Commission
- comply with relevant Treasurer's Instructions
- comply with relevant accounting standards
- present a true and fair view of the financial position of the Essential Services Commission at the end of the 30 June 2018 financial year and the results of its operations and cash flows for the financial year

We certify that the internal controls employed by the Essential Services Commission over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the financial year.

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



Mr Brett Rowse
Chairperson
26 September 2018



Mr Adam Wilson
Chief Executive Officer
26 September 2018



Mr Nick Mahon
Manager, Finance and Information Technology
26 September 2018

Essential Services Commission
Statement of Comprehensive Income
for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Expenses			
Employee benefits expense	3	4 022	3 441
Supplies and services	5	1 403	1 389
Refunds	6	-	58
Depreciation and amortisation	7	146	142
Other expenses	8	30	39
Total expenses		5 601	5 069
Income			
Revenue from licence and administration fees	9	5 098	4 733
Contributions from South Australian Government	10	576	680
Revenue from services	11	110	274
Other income	12	13	8
Total income		5 797	5 695
Net result		196	626
Total comprehensive result		196	626

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

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Essential Services Commission
Statement of Financial Position
as at 30 June 2018

	Note	2018 \$'000	2017 \$'000
Current assets			
Cash and cash equivalents		8 819	8 374
Receivables	13	1 046	1 172
Total current assets		9 865	9 546
Non-current assets			
Property, plant and equipment	15	271	331
Intangible assets	16	196	312
Total non-current assets		467	643
Total assets		10 332	10 189
Current liabilities			
Payables	17	175	225
Employee benefits	18	377	315
Provisions	19	4	1
Other liabilities	20	-	22
Total current liabilities		556	563
Non-current liabilities			
Payables	17	61	65
Employee benefits	18	663	708
Provisions	19	6	3
Total non-current liabilities		730	776
Total liabilities		1 286	1 339
Net assets		9 046	8 850
Equity			
Retained earnings		9 046	8 850
Total equity		9 046	8 850

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

Unrecognised contractual commitments	21
Contingent assets and contingent liabilities	22

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Essential Services Commission
Statement of Changes in Equity
for the year ended 30 June 2018

	Retained earnings	Total equity
	\$'000	\$'000
Balance at 30 June 2016	8 224	8 224
Net result for 2016-17	626	626
Total comprehensive result for 2016-17	626	626
Balance at 30 June 2017	8 850	8 850
Net result for 2017-18	196	196
Total comprehensive result for 2017-18	196	196
Balance at 30 June 2018	9 046	9 046

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

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Essential Services Commission
Statement of Cash Flows
for the year ended 30 June 2018

	2018	2017
	\$'000	\$'000
Cash flows from operating activities		
Cash outflows		
Employee benefits payments	(3 993)	(3 500)
Payments for supplies and services	(1 488)	(1 280)
Payments for refunds	-	(58)
Payments for paid parental leave scheme	-	(4)
Cash used in operations	(5 481)	(4 842)
Cash inflows		
Receipts from licence and administration fees	5 233	4 410
Receipts from South Australian Government	576	680
Receipts from other services	110	274
Receipts from paid parental leave scheme	-	1
Other receipts	13	8
Cash generated from operations	5 932	5 373
Net cash provided by / (used in) operating activities	451	531
Cash flows from investing activities		
Purchase of intangible assets	(6)	(38)
Cash used in investing activities	(6)	(38)
Net cash provided by / (used in) investing activities	(6)	(38)
Net increase / (decrease) in cash and cash equivalents	445	493
Cash and cash equivalents at 1 July	8 374	7 881
Cash and cash equivalents at 30 June	8 819	8 374

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

Note 1 Basis of financial statements

Note 2 Objectives and activities

Expense Notes

Note 3 Employee benefits

Note 4 Remuneration of Commission and committee members

Note 5 Supplies and services

Note 6 Refunds

Note 7 Depreciation and amortisation

Note 8 Other expenses

Income Notes

Note 9 Revenue from licence and administration fees

Note 10 Contributions from South Australian Government

Note 11 Revenue from services

Note 12 Other income

Asset Notes

Note 13 Receivables

Note 14 Non-current assets

Note 15 Property, plant and equipment

Note 16 Intangible assets

Liability Notes

Note 17 Payables

Note 18 Employee benefits

Note 19 Provisions

Note 20 Other liabilities

Other Notes

Note 21 Unrecognised contractual commitments

Note 22 Contingent assets and contingent liabilities

Note 23 Related party transactions

Note 24 Financial risk management / Financial instruments

Note 25 Events after the reporting period

Note 26 Administered items

Essential Services Commission

Notes to and forming part of the financial statements

for the year ended 30 June 2018

1 Basis of financial statements

1.1 Reporting entity

The financial statements and accompanying notes cover the Essential Services Commission (Commission) as an individual reporting entity. The Commission is a statutory authority of the state of South Australia, established pursuant to the Essential Services Commission Act 2002 (ESC Act).

The Commission uses the banking arrangements of the Department of Treasury and Finance under a Service Level Agreement. A non-interest bearing Special Deposit Account (SDA) entitled 'Essential Services Commission Operating Account', established by the Treasurer under the Public Finance and Audit Act 1987 (PFAA), is used for the purpose of recording all of the financial transactions of the Commission, including the collection of licence and administration fees.

1.2 Statement of compliance

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

The Commission has applied Australian Accounting Standards for not-for-profit entities, as the Commission is a not-for-profit entity. Australian Accounting Standards and Interpretations that have recently been issued or amended, but are not yet effective, have not been adopted by the Commission for the period ending 30 June 2018.

1.3 Basis of preparation

The financial statements have been prepared based on a twelve-month period and are presented in Australian currency. The historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured on a different basis.

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

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

Significant accounting policies are set out in the notes.

1.4 Administered items

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

The amounts transferred to the Consolidated Account are administered items held on behalf of the South Australian Government. The Commission is accountable for the collection and banking of those administered items, but does not have the discretion to deploy the resources for the achievement of the Commission's objectives. The receipt of these administered items is not recognised as revenue. Instead, the subsequent transfer of these items to the Consolidated Account is disclosed in notes 9 and 26. The accrual basis of accounting has been used in accounting for administered items.

1.5 Comparative Information

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

The Commission has not applied any accounting policy changes retrospectively for the financial year 2018.

Essential Services Commission

Notes to and forming part of the financial statements

for the year ended 30 June 2018

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

1.6 Taxation

The Commission is not subject to Income Tax. The Commission is liable for Payroll Tax, Fringe Benefits Tax (FBT) and Goods and Services Tax (GST).

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

Goods and Services Tax amounts payable and recoverable from the ATO are managed via Department of Treasury and Finance under the Commission's existing Service Level Agreement and are not reported in these statements for the year ended 30 June 2018.

2 Objectives and activities

2.1 Objectives

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

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

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

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

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

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

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

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

2.2 Activities

The ESC Act specifies a general set of functions for the Commission. However, the specific roles of the Commission are assigned to it under industry legislation. The following table summarises such roles in financial year 2018.

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

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

3 Employee benefits

3.1 Employee benefits expense

	2018	2017
	\$'000	\$'000
Salaries and wages	2 827	2 450
Long service leave	106	35
Annual leave	254	218
Employment on-costs - superannuation	329	283
Employment on-costs - other	160	133
Board and committee fees*	272	273
Other employee related expenses	74	49
Total employee benefit expenses	4 022	3 441

* Commission and committee fees only include direct payment to members. Superannuation payments including salary sacrifice payments are included under Employment on costs - superannuation. See note 4 for details of remuneration for Commission and committee members.

3.2 Targeted voluntary separation packages

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

3.3 Key management personnel

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

Total compensation for the Commission's key management personnel was \$1 383 295 (2017: \$1 186 871).

3.4 Remuneration of employees

Remuneration of employees

	2018	2017
	Number	Number
The number of employees whose remuneration received or receivable falls within the following bands:		
\$147 000 - \$149 000*	na	-
\$149 001 - \$159 000	3	2
\$159 001 - \$169 000	1	-
\$209 001 - \$219 000	-	2
\$219 001 - \$229 000	2	-
\$319 001 - \$329 000	-	1
\$349 001 - \$359 000	1	-
Total	7	5

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

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year, of which 5 (2017: 4) are executive and 2 (2017: 1) are non-executive staff. Remuneration of employees reflects all costs of employment including salaries and wages, payment in lieu of leave, superannuation contributions, fringe benefits tax and salary sacrifice benefits paid or payable in respect of these benefits. The total remuneration received by these employees for the year was \$1 422 249 (2017: \$1 057 100).

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

4 Remuneration of Commission and committee members

Members that were entitled to receive remuneration (directly and indirectly) for membership during the 2018 financial year were:

Essential Services Commission

Mr Brett Rowse (Chairperson)
 Mr Geoff Knight
 Ms June Roache (Appointment concluded 28 May 2018, new appointment commenced 31 May 2018)
 Mr David Round
 Dr Lynne Williams

Consumer Advisory Committee

Mr Brett Rowse (Chairperson)**
 Ms Elaine Attwood
 Mr Sandy Canale
 Mr Graham Davies (Appointment commenced 24 August 2017, concluded 2 November 2017)
 Mr Mark Henley
 Mr Andrew McKenna
 Ms Jane Mussared
 Ms Heather Smith (Appointment commenced 20 November 2017, concluded 30 June 2018)
 Mr Ross Womersley

Power Line Environment Committee

Mr Kevin Hamilton (Chairperson)
 Ms Pam Andritsakis
 Ms Angela Crimes*
 Ms Jo Davidson*
 Mr Amit Dua*
 Mr Alex Duerden* (Appointment concluded 22 April 2018)
 Ms Margaret Lee
 Mr Mike Magin
 Mr Kim Steinle

The number of members whose remuneration received or receivable falls within the following bands:	2018	2017
	Number	Number
\$0 - \$9 999	17	20
\$40 000 - \$49 999	1	-
\$50 000 - \$59 999	2	3
\$60 000 - \$69 999	1	2
\$70 000 - \$79 999	1	-
Total number of Commission and committee members	22	25

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

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

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

Remuneration of members reflects all costs of performing duties including fees, superannuation contributions and salary sacrifice arrangements. The total remuneration received or receivable by members was \$296 529 (2017: \$297 762).

5 Supplies and services

	2018	2017
	\$'000	\$'000
Accommodation	431	458
General administration	526	617
Information technology charges	179	174
Consultants	224	125
Contractors	15	12
Other supplies and services	28	3
Total supplies and services	1 403	1 389

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

5.1 Operating leases

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

5.2 Consultants

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

	2018		2017	
	No	\$'000	No	\$'000
Below \$10 000	3	18	2	17
\$10 000 or above	6	206	5	108
Total paid / payable to the consultants engaged	9	224	7	125

6 Refunds

	2018	2017
	\$'000	\$'000
Refund of administration fees	-	58
Total refunds	-	58

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

7 Depreciation and amortisation

	2018	2017
	\$'000	\$'000
Depreciation		
Building fit-out	60	60
Total depreciation	60	60
Amortisation		
Intangible assets	86	82
Total amortisation	86	82
Total depreciation and amortisation	146	142

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

7.1 Useful life

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

Class of asset	Useful life (years)
Leasehold improvements	3-10
Furniture and fittings	3-10
Office equipment – IT	3-5
Office equipment - Other	3-5
Intangibles	3-6

7.2 Revision of accounting estimates

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

8 Other expenses

		2018	2017
	Note	\$'000	\$'000
Allowances for doubtful debts	13	(6)	39
Derecognition of asset		36	-
Total other expenses		30	39

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

9 Revenue from licence and administration fees

		Electricity	Gas	Water	2018	2017
	Note	\$'000	\$'000	\$'000	\$'000	\$'000
Licence fees*		5 331	2 395	9 869	17 595	16 890
Administration fees		646	213	-	859	760
Administered items	26	(5 255)	(2 174)	(5 927)	(13 356)	(12 917)
Total fees		722	434	3 942	5 098	4 733

* Licence fees in 2017-18 include an amount of \$407 400 from Origin Energy Electricity for past licence fees for the Osborne Power Station.

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

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

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

10 Contributions from South Australian Government

	2018	2017
	\$'000	\$'000
Recurrent contribution from South Australian Government	576	680
Total contributions from South Australian Government	576	680

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

11 Revenue from services

	2018	2017
	\$'000	\$'000
Contribution to rail regulatory costs by Northern Territory Government	110	145
Contribution by Department of Planning, Transport and Infrastructure	-	129
Total revenue from services	110	274

12 Other income

	2018	2017
	\$'000	\$'000
Other income	13	8
Total other income	13	8

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

13 Receivables

	2018	2017
	\$'000	\$'000
Current		
Receivables	834	978
Less allowance for doubtful debts	(33)	(39)
Total receivables	801	939
Accrued revenue	201	214
Prepayments	44	19
Total current receivables	1 046	1 172
Total receivables	1 046	1 172

13.1 Movement in the allowance for doubtful debts

	2018	2017
	\$'000	\$'000
Carrying amount at the beginning of the period	39	-
Increase / (Decrease) in the allowance	(6)	39
Increase / (Decrease) in allowance recognised in net result	(6)	39
Carrying amount at the end of the period	33	39

An allowance for doubtful debts is raised when there is objective evidence that the Commission will not be able to collect the debt.

13.2 Interest rate and credit risk

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

14 Non-current assets

14.1 Revaluation

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

15 Property, plant and equipment

	2018	2017
	\$'000	\$'000
Buildings fit-outs		
Building fit-outs at cost (deemed fair value)	566	566
Accumulated depreciation	(295)	(235)
Total buildings fit-outs	271	331
Total property, plant and equipment	271	331

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

15.1 Acquisition and recognition

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

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

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

15.2 Carrying amount of property, plant and equipment

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

15.3 Impairment

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

There were no indications of impairment on property, plant and equipment at 30 June 2018.

15.4 Reconciliation of property, plant and equipment

The following table shows the movement of property, plant and equipment for the year ended 30 June 2018.

	Building fit-outs	Total
	\$'000	\$'000
Carrying amount at the beginning of the period	331	331
Depreciation	(60)	(60)
Carrying amount at the end of the period	271	271

16 Intangible assets

	2018	2017
	\$'000	\$'000
Internally developed software		
Internally developed computer software at cost (deemed fair value)	240	240
Accumulated amortisation	(140)	(100)
Total internally generated software	100	140
Externally developed software		
Externally developed computer software at cost (deemed fair value)	184	184
Accumulated amortisation	(88)	(42)
Total externally developed software	96	142
Work in progress		
Work in progress at cost	-	30
Total work in progress	-	30
Total intangible assets	196	312

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

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

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

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

The internally developed computer software relates to the Commission's Retailer Energy Efficiency Scheme reporting system with a remaining useful life of 2.5 years and carrying amount of \$100 000 (2017: \$140 000).

16.1 Impairment

There were no indications of impairment of intangible assets at 30 June 2018.

16.2 Reconciliation of intangible assets

The following table shows the movement of intangible assets for the year ended 30 June 2018.

	Internally developed software	Externally developed software	Work in progress	Total
	\$'000	\$'000	\$'000	\$'000
Carrying amount at the beginning of the period	140	142	30	312
Additions	-	-	6	6
Transfers out	-	-	(36)	(36)
Amortisation	(40)	(46)	-	(86)
Carrying amount at the end of the period	100	96	-	196

17 Payables

	2018	2017
	\$'000	\$'000
Current		
Creditors and accrued expenses	124	180
Employment on-costs*	51	45
Total current payables	175	225
Non-current		
Employment on-costs	61	65
Total non-current payables	61	65
Total payables	236	290

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

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

Based on an actuarial assessment performed by Department of Treasury and Finance, the percentage of the proportion of long service leave taken as leave has increased from the 30 June 2017 percentage rate of 40% to 41%. The average factor for the calculation of the employer superannuation on-costs has decreased from the 2017 rate of 10.1% to 9.9%. These rates are used in the employment on-cost calculation. The net financial effect of the change on employment on-costs and employee benefit expense is immaterial.

Under the Payroll Tax Act 2009, the payroll tax rate remained at 4.95% in 2018. The rate is used in the payroll tax calculation for long service leave and annual leave.

17.1 Interest rate and credit risk

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

18 Employee benefits

	2018	2017
	\$'000	\$'000
Current		
Accrued salaries and wages	62	59
Annual leave	226	204
Long service leave	89	52
Total current employee benefits	377	315
Non-current		
Long service leave	663	708
Total non-current employee benefits	663	708
Total employee benefits	1 040	1 023

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

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

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

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

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

18.2 Long service leave

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

AASB 119 Employee Benefits describes the calculation methodology for long service leave liability.

The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave and is based on actuarial assumptions on expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data across government.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

AASB 119 Employee Benefits requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Commonwealth Government bonds remains at 2.5% in 2018. As a result, there is no net financial effect resulting from changes in the yields on long-term Commonwealth Government bonds.

The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of demographical and financial assumptions, including the long-term discount rate.

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

The unconditional portion of the long service leave provision is classified as current as the Commission does not have an unconditional right to defer settlement of the liability for at least 12 months after reporting date. The unconditional portion of long service leave relates to an unconditional legal entitlement to payment arising after 10 years of service.

19 Provisions

	2018	2017
	\$'000	\$'000
Current		
Workers' compensation	4	1
Total current provisions	4	1
Non-current		
Workers' compensation	6	3
Total non-current provisions	6	3
Total provisions	10	4

20 Other liabilities

	2018	2017
	\$'000	\$'000
Current		
Unearned revenue	-	22
Total current other liabilities	-	22
Total other liabilities	-	22

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

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

21 Unrecognised contractual commitments

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

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

21.1 Operating lease commitments

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

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

	2018	2017
	\$'000	\$'000
No later than one year	405	373
Later than one year but not later than five years	1 494	1 591
Later than five years	-	192
Total operating lease commitments	1 899	2 156

21.2 Expenditure commitments

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

	2018	2017
	\$'000	\$'000
No later than one year	15	40
Total other commitments	15	40

22 Contingent assets and contingent liabilities

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

22.1 Contingent assets

The Commission is not aware of any material contingent assets in existence as at 30 June 2018.

22.2 Contingent liabilities

The Commission is not aware of any material contingent liabilities in existence as at 30 June 2018.

23 Related party transactions

23.1 Transactions with key management personnel and other related parties

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

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

24 Financial risk management / financial instruments

24.1 Financial risk management

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

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

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

24.2 Categorisation of financial instruments

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

Categorisation of financial asset and financial liability	Note	Carrying amount / fair value	Carrying amount / fair value
		2018	2017
		\$'000	\$'000
Financial assets			
Cash and cash equivalents		8 819	8 374
Total financial assets		8 819	8 374
Financial liabilities			
Payables*	17	89	151
Total financial liabilities		89	151

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

25 Events after the reporting period

Adjustments are made to amounts recognised in the financial statements, where an event occurs after 30 June 2018 and before the date the financial statements are authorised for issue, where those events provide information about conditions that existed at 30 June 2018.

Note disclosure is made about events between 30 June 2018 and the date the financial statements are authorised for issue where the events relate to a condition which arose after 30 June 2018 and which may have a material impact on the results of subsequent years.

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

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

26 Administered items

Australian Energy Market Commission

An amount approved by the Treasurer is transferred to the Consolidated Account from the electricity and gas licence fees received by the Commission for the Australian Energy Market Commission. In 2018 \$2 045 000 (2017: \$1 876 000) was transferred.

Consumer Advocacy and Research Fund

An amount approved by the Treasurer is transferred to the Consolidated Account from the water licence fees received by the Commission for the Consumer Advocacy and Research Fund. In 2018 \$ 277 268 (2017: \$275 739) was transferred.

Technical Regulator

An amount approved by the Treasurer is transferred to the Consolidated Account from the electricity, gas and water licence fees received by the Commission for the Technical Regulator. In 2018 \$10 148 013 (2017: \$9 900 500) was transferred.

Department for Environment and Water

An amount approved by the Treasurer is transferred to the Consolidated Account from the water licence fees received by the Commission for the Department for Environment and Water. In 2018 \$529 720 (2017: \$516 800) was transferred.

Department of Treasury and Finance

An amount approved by the Treasurer is transferred to the Consolidated Account from the water licence fees received by the Commission for the Department of Treasury and Finance. In 2018 \$356 495 (2017: \$347 800) was transferred.



Level 9
State Administration Centre
200 Victoria Square
Adelaide SA 5000
DX 56208
Victoria Square
Tel +618 8226 9640
Fax +618 8226 9688
ABN 53 327 061 410
audgensa@audit.sa.gov.au
www.audit.sa.gov.au

To the Chairperson Essential Services Commission of South Australia

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 24(2) of the *Essential Services Commission Act 2002*, I have audited the financial report of the Essential Services Commission of South Australia for the financial year ended 30 June 2018.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Essential Services Commission of South Australia as at 30 June 2018, its financial performance and its cash flows for year then ended in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2018
- a Statement of Financial Position as at 30 June 2018
- a Statement of Changes in Equity for the year ended 30 June 2018
- a Statement of Cash Flows for the year ended 30 June 2018
- notes, comprising significant accounting policies and other explanatory information for administered items
- a Certificate from the Chairperson, the Chief Executive Officer and the Manager, Finance and Information Technology.

Basis for opinion

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

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

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

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

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

Auditor's responsibilities for the audit of the financial report

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

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

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

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

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

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

Andrew Richardson

Auditor-General

27 September 2018

Essential Services Commission
Level 1, 151 Pirie Street Adelaide SA 5000
GPO Box 2605 Adelaide SA 5001
Telephone: (08) 8463 4444
Email: escosa@escosa.sa.gov.au

escosa.sa.gov.au

