

2018-19 Annual Report



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This Annual Report is submitted to the Treasurer of South Australia, the Hon Rob Lucas MLC, in accordance with section 39 of the Essential Services Commission Act 2002. This is the sixteenth Annual Report of the Essential Services Commission, which was established in September 2002. This report is verified to be accurate for the purpose of annual reporting to the Parliament of South Australia.

Date presented to Minister: 27 September 2019.

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Overview: about the Commission

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's primary objective is the

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

The ESC Act sets out seven further factors that the Commission has 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 value to the South Australian community through the regulatory outcomes that it facilitates under its principles-based and proportionate regulatory approach. This protects consumers and enables and encourages regulated entities to deliver for their customers, with appropriate regulatory response where that does not occur.

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.

Strategy

The Commission produces a rolling three-year Strategy, which sets out strategic priorities, challenges and responses.

The priorities guide us in meeting our primary objective of protecting the long-term interests of consumers with respect to the price, quality and reliability of essential services. The three priorities in the Strategy 2018-2021 are:

1. We will establish consumer protection frameworks to promote the delivery of service levels valued by consumers at an efficient cost.
2. We will keep regulated entities accountable to their customers through transparent monitoring and public reporting on performance.
3. We add value to South Australia by delivering impartial, credible and robust regulatory and economic advice.

We recognise that there may be challenges arising as we pursue those priorities; while those may be many and varied, the Commission has identified five areas which will have a key influence on the its regulatory frameworks for the 2018-2021 period:

- ▶ changing community expectations and views on standards of service and access for essential services
- ▶ the role that regulation can or should play in the market

- ▶ changing and evolving market and industry structures, including the impacts of new and potentially disruptive technologies
- ▶ the overall South Australian and Australian economic climate and trends, and
- ▶ developments in practices and thinking in the field of economic regulation, nationally and globally.

Finally, having regard to those five areas, the Strategy also sets out four strategic responses to assist it in meeting its primary objective and strategic priorities when delivering its regulatory and statutory work program. The four strategic responses for 2018-2021 are:

- ▶ Building stakeholder and consumer engagement.
- ▶ Embedding better regulation.
- ▶ Enabling regulated entity performance and accountability.
- ▶ Create workforce readiness.

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 below.

Advisory functions

The Commission has two broad advisory functions.

The first is to provide advice to the Treasurer of South Australia, 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 of South Australia 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.

The Commission's organisational structure

The Commission comprises a [Chairperson and Commissioners](#). As at 30 June, there were 27 staff (25.23 full-time equivalents), led by the Chief Executive Officer.

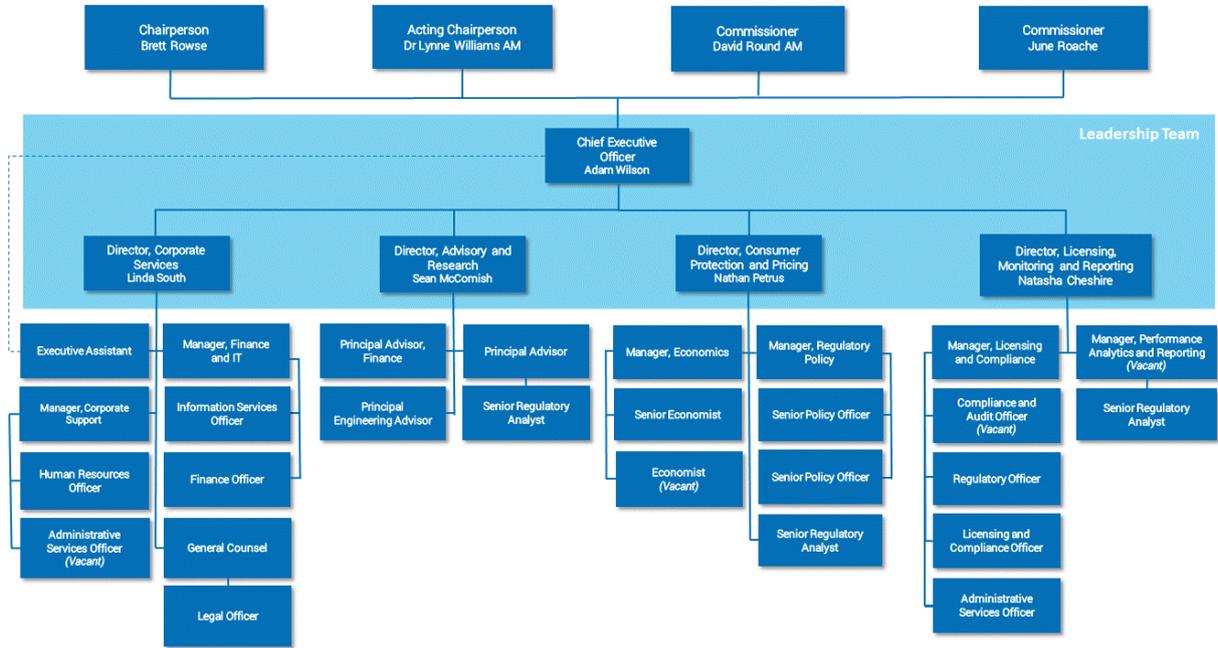
The Commission employs a diverse range of professional and technically qualified staff, with backgrounds in areas including economics, engineering, law and finance.

The Commission's organisational structure is provided at Figure 1.

Changes to the Commission

During 2018-19 there were no significant changes to the Commission's structure and objectives.

Figure 1: Commission's organisational structure as at 30 June 2019



Our 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 persons as Commissioners based on their knowledge of, or experience in, industry, commerce, economics, law and/or public administration.



Mr Brett Rowse was appointed as **Chairperson** of the Commission in July 2016.



Mr David Round AM was appointed as a **Commissioner** in May 2014.



Dr Lynne Williams AM was appointed as a **Commissioner** in September 2013 and as **Acting Chairperson** in September 2014.



The Commission would also like to acknowledge the passing of **Mr Geoff Knight** in November 2018. Geoff was appointed as a **Commissioner** in October 2014, following a distinguished career in the public service. Mr Knight was a wonderful contributor to the work of the Commission and he is greatly missed.



Ms June Roache was appointed as a **Commissioner** in May 2014.

Our Leadership team



Mr Adam Wilson
Chief Executive Officer

Mr Wilson is responsible for the achievement of the Commission's strategic and corporate objectives. He oversees the leadership and management of the Commission's office, which includes achieving the Commission's budget, ensuring compliance with legislative requirements, the development and implementation of the regulatory work program, maintenance of the corporate governance framework (including strategic planning), and stakeholder management.



Ms Linda South
Director, Corporate Services

Ms South is responsible for leading the corporate and business functions of the Commission. That includes legal services, finance, workforce and wellbeing, corporate governance, risk management, internal audit and compliance, information management, media and communication, strategic planning, operational planning and performance, and executive and administrative support.



Mr Nathan Petrus
Director, Consumer Protection and Pricing

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



Ms Natasha Cheshire
Director, Licensing, Monitoring and Reporting

Ms Cheshire 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). She is also responsible for administering the Retailer Energy Efficiency Scheme.



Mr Sean McComish
Director, Advisory and Research

Mr McComish 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. He provides a single internal point of contact and management for requests for advice and for undertaking inquiries.

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

The Commission's performance

The Commission's Strategy 2018-2021 sets out three priorities that are determined by the Commission's primary objective of protecting the long-term interests of consumers with respect to price, quality and reliability of essential services.

The Commission delivers on these three priorities through its strategic approach and delivery of its annual performance plan approved by the Treasurer of South Australia.

The performance plan sets out the core work program across the full range of the Commission's functions for each financial year. In 2018-19, the Commission successfully delivered 98 of the 103 deliverables contained in the plan, with the remaining five reprioritised due to the emergence of higher priority work.

Appendix 1 further discusses performance against the Performance Plan 2018-19.

Commission's priorities and performance

Priority 1: We will establish consumer protection frameworks to promote the delivery of service levels valued by consumers at an efficient cost

Indicators of success

- ▶ Decisions evidenced and based on statutory frameworks
- ▶ Consumer confidence in the work of the Commission

Performance

The Commission aims to demonstrate evidence-based, logical decision making, based on the relevant statutory frameworks.

In 2018-19, the Commission commenced or completed seven regulatory reviews:

- ▶ SA Water Regulatory Determination 2020 (commenced)

- ▶ Water third party access regime (completed)
- ▶ Electricity Transmission Code (completed)
- ▶ Electricity Metering Code (commenced)
- ▶ Energy Prepayment Meter System Code (commenced)
- ▶ Gas Distribution Code and reporting guideline (commenced)
- ▶ Gas Metering Code (commenced)

An important aspect of that work was gathering evidence and information from stakeholders, including consumer representative groups. The Commission engaged extensively with stakeholders through meetings, workshops and presentations. It also sought formal public submissions throughout the review processes, receiving 15 written submissions for the seven regulatory reviews in 2018-19.

Responses to the stakeholder survey of September 2018 showed a high level of confidence in the Commission, with 93 percent of respondents indicating that the Commission had effectively implemented its legislative responsibilities.

The stakeholder survey also showed confidence in the Commission's work, with 89 percent of stakeholders stating reports and publications from the Commission to be 'good' or 'excellent', an increase of 23 percentage points from 2016.

Priority 2: We will keep regulated entities accountable to their customers through transparent monitoring and public reporting on performance

Indicators of success

- ▶ Consumers and stakeholders are engaged and informed through ongoing public consultation and reporting.
- ▶ Energy retailers are compliant with Retailer Energy Efficiency Scheme requirements (and are held to account for non-compliance)

Performance

In 2018-19, the Commission continued to engage and inform consumers and stakeholders through stakeholder meetings, public consultations, and publications on its website.

The Commission is committed to transparency in decision-making, as outlined in its Charter of Consultation and Regulatory Practice.

The Commission consulted on 41 projects, and published 126 new articles and 198 documents on its website.

During the year, the Commission visited four South Australian regions (Eyre Peninsula, Mallala, Upper North and Upper South East) and held five meetings with growers to discuss the draft Report for the inquiry into the South Australian bulk grain export supply chain costs, released in August. A further seven meetings were held with associations and individuals, with additional discussions also held by telephone.

Responses to the stakeholder survey of September 2018 showed an increase in approval of the Commission's communication practices and methods, with 83 percent considering communications from the Commission to be 'good' or 'excellent', an increase of 14 percentage points from 2016.

As a part of driving regulated entities' accountability to their customers, the Commission undertakes public monitoring and reporting of service standard and licence requirement outcomes. In 2018-19, it published an annual regulatory performance report for SA Water, South Australia's major water retailer, and a separate report in relation to the performance of minor and intermediate water retailers. The Commission also published energy performance reports for SA Power Networks and ElectraNet.

In 2018-19 the Commission administered the REES and reported to the Minister for Energy and Mining on retailers' compliance requirements. In 2018, the overall annual REES targets were achieved and all obliged retailers except EnergyAustralia met their individual targets (EnergyAustralia failed to meet its priority group target). Compliance action relating to that non-compliance commenced in 2019-20.

Priority 3: We add value to South Australia by delivering impartial, credible and robust regulatory and economic advice

Indicators of success

- ▶ Independent, expert and timely advice provided to the South Australian Government
- ▶ Commission's performance program achieved

Performance

In 2018-19 the Commission continued to receive requests for public and confidential advice from the South Australian Government.

The Commission progressed one self-initiated inquiry - the small-scale networks inquiry - and provided a range of confidential and publicly available advice on its findings to the South Australian Government. The Commission also completed the inquiry into the South Australian bulk grain export supply chain costs (referred by the Treasurer of South Australia).

The Commission also provided a range of advice across essential service sectors, as well as advice on the administrative and regulatory arrangements required to support a local government rate oversight system. In providing advice, the Commission aimed to contribute to broader Government decision-making and public policy debate.

The Commission achieved (or substantially progressed) 98 of 103 projects on its 2018-19 performance plan approved by the Treasurer of South Australia. The Commission also achieved the performance plan deliverables and additional inquiries and advice within budget, achieving a \$898k positive variance on the 2018-19 budgeted result.

White Ribbon Accreditation

During 2018-19, the Commission continued its focus on developing employee's collective understanding of the impacts of domestic violence and related issues, including the moral, societal and economic benefits of its prevention, alongside the White Ribbon accreditation process.

In June 2019, the Commission lodged its final pieces of evidence to seek accreditation.

The Commission will continue to focus on building awareness and capability of staff to respond to disclosures of family and household violence, and provide opportunities to learn and develop our responses to those issues through the workplace.

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 to it at the time.

Genuine and effective engagement can build 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 works with various 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.

Stakeholder Engagement Survey 2018

The Commission undertook its biennial stakeholder engagement survey in October 2018. The highlight results showed that:

- ▶ 93 percent of respondents agree that the Commission is effectively implementing its legislative responsibilities.
- ▶ 90 percent of respondents agree that the Commission is honest and acts respectfully towards stakeholders, and
- ▶ 83 percent of respondents rate communication as 'good' or 'excellent'.

While survey results were improved overall from the last survey undertaken in 2016, there were some differences across sectors and regions. Stakeholders in regional areas showed a desire for increased communication and engagement from the Commission.

The Commission is committed to continuing to meet these high standards and improving on all aspects of communication and engagement with its stakeholders, including seeking opportunities for engagement with regional and rural stakeholders.

Review of the Charter of consultation and regulatory practice

The Commission commenced a review of its Charter of Consultation and Regulatory Practice (**Charter**) in May 2019. This review will ensure that the Charter reflects the Commission's current approach to regulation and consultation.

The review has simplified the Charter, while ensuring it reflects the current approach of:

- ▶ promoting better regulation principles in our regulatory practice
- ▶ taking a principles-based approach to stakeholder engagement, and
- ▶ promoting fit-for-purpose engagement.

Stakeholders have provided submissions and the Charter will be finalised in 2019-20.

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 into the Commission's consultation and decision-making processes.

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.

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.

The Consumer Advisory Committee considered and provided input into a range of regulatory matters the Commission considered during the year.

The membership of the [Consumer Advisory Committee](#) is outlined in the financial statements at Note 2.2.

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/or research that benefit water and energy consumers, aligning this work with the Commission's primary statutory objectives.

The Commission received and approved two applications for a small grant during 2018-19, totalling \$20,000. These were:

- ▶ SACOSS received a grant of \$15,000 to undertake consultation in relation to assessing the challenges that some Aboriginal communities face in obtaining reliable access to essential services.
- ▶ Business SA received a grant of \$5,000 to seek external assistance with the report it submitted to the Water Price Inquiry 'A Balanced Bargain' conducted by Mr Lew Owens.

Inquiries and advice

During 2018-19, the Commission continued two inquiries (under Part 7 of the ESC Act) and provided formal advice to the Treasurer of South Australia (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 with the release of an issues paper in August 2016 to consider the appropriate regulatory arrangements to apply to small-scale water supplies, sewerage services, non-national market electricity and reticulated liquefied petroleum gas supplies.

The inquiry was then reprioritised due to other inquiries and statutory work. A Framework and Approach paper was released in June 2019 requesting submissions. The inquiry will be completed in 2019-20.

Inquiry into the South Australian bulk grain export supply chain costs

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

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

The inquiry comprised two parts:

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

- ▶ second, if areas were identified where bulk grain supply chain costs were inefficient, the provision of options to address those inefficiencies.

A draft report on part one of the Inquiry was provided to the Treasurer of South Australia in June 2018. The final report, incorporating both part one and two, was provided to the Treasurer of South Australia in December 2018.

Request for advice on the South Australian local government rate oversight system

The Local Government (Rate Oversight) Amendment Bill 2018, which was introduced into Parliament on 20 June 2018, proposed a statutory framework for the regulation of local government general rates. In light of the short timeframe proposed for the implementation of the framework, the Treasurer of South Australia 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.

The Commission provided the advice to the Treasurer of South Australia on 29 November 2018.

Request for advice on Distributed Energy Resources

In May 2019, the Treasurer of South Australia requested advice from the Commission on the opportunities and types of actions that the South Australian Government could consider in developing a plan to provide effective coordination of distributed energy resources and related matters.

The Commission provided the draft advice to the Treasurer of South Australia on 28 June 2019.

Request for Advice - Competitive Neutrality

In January 2019, the Treasurer of South Australia requested advice of the Commission to assist in the investigation of two competitive neutrality complaints under the Government Business Enterprises (Competition) Act 1996.

The Commission commenced the provision of advice on these competitive neutrality matters during 2018-19.

Regulation

Water

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 777,000 properties (servicing 1.6 million people) and sewerage services to 700,000 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, supply remaining customers.

Water price regulation

SA Water regulatory determination 2020

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

This 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 framework and approach report was released in July 2018.

Between November 2018 and July 2019, the Commission released eight [guidance papers](#). These are intended to provide guidance to all stakeholders about the Commission's initial positions on principles, requirements and methodology on matters relevant to the determination. The positions included in the initial guidance may change during the review based on stakeholder feedback and the outcomes of SA Water's engagement with its customers.

The Commission has continued to engage with stakeholders, and established a Consumer Experts Panel, Negotiation Forum and a Regulators Working Group during 2018-19.

[Consumer Experts Panel](#)

The [Consumer Experts Panel](#) draws on the collective knowledge, skills, expertise and experience of the Commission's Consumer Advisory Committee and SA Water's Customer Advisory Groups. The Commission released the Consumer Experts Panel [Priorities Report](#) which describes key issues that the panel expects SA Water to consider and respond to as it develops its regulatory business proposal. It also provided guidance to the Customer Negotiation Committee.

[Negotiation Forum](#)

The purpose of the [Negotiation Forum](#) was to ensure that the business plan SA Water submits to the Commission in October 2019 has been thoroughly tested by a wide range of stakeholders.

The Negotiation Forum is comprised of the Customer Negotiation Committee, the SA Water Negotiation Team and an Independent Probity Advisor (appointed by the Commission).

[Regulators Working Group](#)

The Commission also convened a [Regulators Working Group](#) to provide a forum for the various regulators to coordinate in achieving positive outcomes for the South Australian community through their combined regulation of SA Water.

The Regulators Working Group will continue to work throughout the 2020-2024 regulatory period to jointly monitor, and evaluate SA Water's performance in meeting regulatory requirements.

The members of the Regulators Working Group commit to:

- ▶ working together to promote the best long-term outcomes for SA Water's customers and the community, and
- ▶ communicating openly to ensure a shared understanding of the overall regulatory system that applies to SA Water, the impact of our regulation on each other's priorities and the combined effect of our regulation on SA Water and its customers.

[Water licensing](#)

During 2018-19, the Commission issued one new water retail licence to Enwave Tonsley Pty Ltd.

The Commission also received notification of one surrender of a water retail licence from Outback Communities Authority.

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's Code and Guideline for SA Water are:

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

The Commission's Code and Guideline which apply to retailers with up to and including 50,000 connections are:

- ▶ [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 to be accountable to their customers is through public monitoring and reporting on service standard achievement and licence requirement compliance.

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 2017-18](#) for drinking water and sewerage services, in January 2019.

Key performance outcomes were:

- ▶ SA Water was assessed as meeting all 18 customer and reliability service standards.
- ▶ SA Water's customer and reliability performance have both generally improved, compared to average historical performance.
- ▶ The incidence of water network breaks, bursts, leaks and sewerage overflow events have slightly increased; however, SA Water attended to those events within the required timeframe.

- ▶ The duration and incidence of water and sewerage supply interruptions both slightly increased; however, SA Water restored all supply interruptions within the required timeframes.

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.

Independent Audit

The Commission completed an independent [audit](#) of SA Water's data relating to specific key performance indicators. The objective of the audit was to provide assurance over the quality of the data reported by SA Water, to form an input into SA Water Regulatory Determination 2020.

Based on the audit procedures and detailed testing, the Commission was satisfied that the six operational performance indicators that were included in the audit had been reported accurately by SA Water over the three year period and the processes to record and report the data were generally robust.

Minor and intermediate retailer performance

The Commission published the [Minor and Intermediate Retailers Regulatory Performance Report 2017-18](#) in May 2019. Minor retailers have fewer than 500 customers and intermediate retailers have between 500 and 50,000 customers. Key observations were:

- ▶ Collectively, Minor and Intermediate Retailers provide drinking water services to approximately 4,000 customers and sewerage/CWMS services to approximately 94,000 customers.
- ▶ More retailers have reported being compliant with all of the relevant pricing principles and fully recovering the costs of service provision, compared to previous years.
- ▶ Of the retailers that reported operating deficits, many are still transitioning to full cost recovery and are gradually adjusting prices to limit the potential for customer price shocks.

- ▶ The scale and scope of water and sewerage services offered varies considerably across retailers, contributing to the spread of customer prices and service performance.
- ▶ Retailers reported receiving fewer complaints (334) in 2017-18, compared to 375 in the previous year.
- ▶ At 30 June 2018, 15 retailers reported having a total of 114 residential customers participating in their hardship programs, and 36 retailers reported having a total of 5,393 residential customers on their flexible payment arrangement plans.
- ▶ Retailers reported fewer unplanned water and sewerage interruptions (127 in total), compared to 156 in the previous year.
- ▶ Retailers reported an increase in the number of legal actions and water restrictions (908 in total) to recover debts, compared to 621 in the previous year.

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

The Commission's compliance framework was utilised over 2018-19 to undertake target compliance action to address non-compliance. In these circumstances, the Commission sought to remediate adverse customer outcomes caused by the non-compliance and drive behavioural change within the non-complying retailer. Ongoing monitoring of the performance of these retailers continues.

In summary, the Commission addressed the following compliance matters during the 2018-19 reporting year:

- ▶ Incorrect notifications regarding planned interruptions, which required system updates to improve data accuracy.
- ▶ Failure to provide emergency contact numbers to customers, which required upgrades to phone and customer account systems.
- ▶ Unavailability of customer charter information, which has been rectified to ensure easy access.
- ▶ Administrative errors associated with regulatory reporting.

The Commission has liaised with the relevant entities directly about the matters of non-compliance and these have been satisfactorily resolved.



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 2018-19 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 continues to be the licensing authority for all electricity generation sources (including wind, solar and battery).

Energy retail offers comparison 2017-18

The Commission provides to the Minister for Energy and Mining an annual [Energy Retail Offers Comparison Report](#). The 2017-18 report compares electricity and gas retail offer prices, including retailer-paid feed-in tariffs, available to South Australian residential and small business customers during the period 30 June 2017 to 30 June 2018.

The report found that there had been increases in the prices of both electricity and gas standing and market contracts offered during that 2017-18 period but that customers could make savings by shifting from standing to market offers and comparing between market offers.

The report also found that customers had a reasonable choice of retailer-paid feed-in tariffs and increases in retailer-paid feed-in tariffs appear to reflect underlying wholesale electricity cost movements.

The Commission continues to monitor the retailer-paid feed-in tariffs and solar offers in South Australia.

Energy licensing

During 2018-19, the Commission issued 21 new licences, transferred one licence, varied eight existing licences and issued one exemption from the requirement to hold a licence (with the approval of the Minister):

- ▶ Electricity generation licence – Adelaide Hills Division of General Practice Inc
- ▶ Electricity generation licence – Como Glasshouse No2 Pty Ltd
- ▶ Electricity generation licence – CSR Building Products Ltd
- ▶ Electricity generation licence – Doroga Holdings Pty Ltd
- ▶ Electricity generation licence – Eco Energy Partners Pty Ltd
- ▶ Electricity generation licence – Enwave Tonsley Pty Ltd
- ▶ Electricity generation licence – Flinders University
- ▶ Electricity generation licence – IBA Wilpena Solar Pty Ltd
- ▶ Electricity generation licence – Lincoln Gap Wind Farm Pty Ltd
- ▶ Electricity generation licence – Mannum Solar Farm Pty Ltd
- ▶ Electricity generation licence – Monash 2 Pty Ltd
- ▶ Electricity generation licence – Pirie Solar Farm Pty Ltd
- ▶ Electricity generation licence – Port Pirie Solar Pty Ltd
- ▶ Electricity generation licence – SAFCOL Australia Pty Ltd
- ▶ Electricity generation licence – Sustainable Energy Infrastructure Pty Ltd
- ▶ Electricity generation licence – University of South Australia
- ▶ Electricity generation licence – Vena Energy Services (Australia) Pty Ltd
- ▶ Electricity generation licence – Y.E.S Energy (SA) Pty Ltd
- ▶ Electricity generation licence – Yongala Solar Farm Pty Ltd
- ▶ Electricity distribution licence – Enwave Tonsley Pty Ltd
- ▶ Electricity generation, distribution and retail licence transfer – Cowell Electric Supply Pty Ltd
- ▶ Electricity generation licence variation – Energy Generation Pty Ltd
- ▶ Electricity generation licence variation – Origin Energy Electricity Ltd
- ▶ Electricity generation licence variation – SA Power Networks
- ▶ Electricity generation licence variation – SAFCOL Australia Pty Ltd
- ▶ Electricity generation licence variation – South Australian Water Corporation
- ▶ Electricity generation licence variation – South Australian Water Corporation (second variation)

- ▶ Electricity generation, distribution and retail licence variation – Cowell Electric Supply Pty Ltd
- ▶ Electricity distribution and retail exemption – IBA Wilpena Solar Pty Ltd
- ▶ Gas distribution licence – Enwave Tonsley Pty Ltd
- ▶ Gas retail licence variation – Elgas Limited

The Commission also received notification of one surrender of a licence from AGL South Australia Pty Ltd.

Energy licensing activities have increased over the past few years, particularly in respect of applications for small-scale generation plants (under 5MW), the majority of which are solar photovoltaic arrays.

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

Licensing arrangements for generators in South Australia

In June 2019, the Commission commenced a review into what implications changes to the technical standards in the National Electricity Rules may have for some of the Commission 2017 model licence conditions for new generators. In particular, whether some of the Commission’s conditions might be redundant.

The Australian Energy Market Operator provided the Commission updated advice on which of the technical licence conditions for new generators could be retained or removed.

This review will be completed in 2019-20.

Energy codes and guidelines

The Commission has seven industry codes that apply to the electricity and/or gas industries (see below). 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 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 Transmission Code variation

In March 2019, the Commission varied the Electricity Transmission Code to include a new transmission network exit point at Mount Gunson South, to supply the OzMinerals Carrapateena Mine.

The variation amended the Code to apply a Category 1 reliability standard to the exit point. Category 1 is the lowest reliability standard provided for in the Electricity Transmission Code, and is consistent with that applying to other single-customer transmission exit points.

SA Power Networks 2020 reliability standards review

The Commission commenced a review of SA Power Networks 2020 reliability standards during 2017-18 which continued in 2018-19.

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. The final standards were developed by considering the wide ranging views of stakeholders, including feedback collected through a customer survey on

willingness to pay for reliability improvements. The Commission released its final decision in January 2019.

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 [energy regulatory performance reports](#) for 2017-18 in relation to licensed energy networks operating in South Australia. The 2017-18 regulatory performance reports were published in December 2018.

Key performance outcomes were:

SA Power Networks

- ▶ In 2017-18, SA Power Networks met both customer service standards for telephone and written responses.
- ▶ SA Power Networks met all eight of the reliability service standards.
- ▶ There were 85,560 Guaranteed Service Level payments made totalling \$1.34 million, the lowest amount since 2008-09. Eighty percent of Guaranteed Service Level payments were made for duration of interruptions. The average value of payments per year since the scheme's introduction has been \$4.82 million

ElectraNet

- ▶ In 2017-18, ElectraNet met all of its three restoration service standards.
- ▶ ElectraNet reported decreases in both the number and average duration of supply interruptions, primarily due to the lack of severe weather events.
- ▶ There were no transmission line or transformer failures for the year.

Australian Gas Networks

- ▶ In 2017-18, Australian Gas Networks responded to the majority of reported leaks and emergencies in a timely manner.

- ▶ There were no significant protracted interruptions to customers' supply on the gas distribution network during 2017-18.
- ▶ Of the 10,321 potential gas leaks reported by the public that were actual leaks (8,779), 99.9 percent were repaired within the timeframe specified in the Australian Gas Networks' Leakage Management Plan.

Off-grid electricity and LPG retailers and distributors

- ▶ Electricity disconnections for non-payment increased from 75 in 2016-17 to 102 in 2017-18. Of these disconnections, 63 were reported by the District Council of Coober Pedy and 37 by the Municipal Council of Roxby Downs.
- ▶ Unplanned electricity supply interruptions decreased from 176 in 2016-17 to 160 in 2017-18. The majority of the unplanned interruptions (115) were reported in areas operated by Cowell Electric, and were caused by storms, lightning and switching issues. The Commission has reviewed each reported interruption and there does not appear to be any systemic issues or remediation action required.
- ▶ For LPG licensees, disconnections for non-payment increased from three in 2016-17 to seven in 2017-18.
- ▶ There were no unplanned supply interruptions reported for LPG customers in 2017-18.

Energy compliance

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

The Commission has 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.

The Commission's compliance framework was utilised over 2018-19 to undertake target compliance action to address non-compliance. In these circumstances, the Commission sought to remediate adverse customer outcomes caused by the non-compliance and drive behavioural change within the non-complying retailer. Ongoing monitoring of the performance of these retailers continues.

In summary, the Commission addressed the following compliance matters during the 2018-19 reporting year:

- ▶ Failure to adequately provide required training, which required training to be implemented.
- ▶ Incorrect notifications regarding planned interruptions, which required system and process upgrades.
- ▶ Non-compliance with technical requirements of the National Electricity Law, which were addressed by the national agencies.
- ▶ Administrative errors associated with regulatory reporting.

The Commission has liaised with the relevant entities directly about the matters of non-compliance and these have been satisfactorily resolved.

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 2018-19, was \$7.07 million. The total funding, including Councils' contributions, is \$10.61 million. To meet this funding requirement, the Committee approved six projects for undergrounding four kilometres of existing overhead cables. Projects in the

metropolitan area account for 51 percent of funding, with projects in regional areas accounting for the remaining 49 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 2018 outcomes

The REES outcomes for the 2018 calendar year were:

- ▶ The overall annual REES targets were achieved and all obliged retailers except one met their individual targets.
- ▶ Approximately 2 million GJ of deemed energy savings were delivered to the 21,600 households and businesses benefitting from the REES.
- ▶ Approximately 317,000 GJ of deemed energy savings were delivered to 12,800 households in the Priority Group.
- ▶ Approximately 52,000 energy efficiency activities were delivered and 348,000 energy efficient products installed.

Some REES highlights since REES commenced in 2009 include:

- ▶ Approximately 15 million GJ of deemed energy savings delivered.
- ▶ Approximately four million GJ of deemed energy savings and 58,000 energy audits delivered to approximately 177,000 households in the Priority Group.

REES Code review

During 2018-19, 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 released its final decision on the REES Code in November 2018, deciding not to make changes to the REES Code at this time.



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 should continue.

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 conciliated, or referred for arbitration, by the Commission in 2018-19.

Ports price monitoring report 2018

In November 2018, the Commission published its [2018 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.

Commission's performance management and development system

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

Performance management and development system	Performance
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 Development Policy and Procedure.	Active preparation and participation by all managers and employees in a process of performance management is expected and achieved. At 30 June 2019, 100 percent of staff had a Performance Agreement in place.

Work health, safety and return to work programs

The Commission is committed to the health, safety and wellbeing of Commissioners and all staff. Work health, safety and wellbeing initiatives are included in the annual Workforce Plan. 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	Performance
Incident/injury management	Achieved – nil notifiable incidents during 2018-19
Hazard management	Achieved – hazards responded to within required timeframes

Work health, safety and rehabilitation programs	Performance
WHS policies	Achieved – all policy and procedure reviews completed
Training	Achieved – WHS training plan in place
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 2018-19
Induction	Achieved – all new employees and contractors undertook a safety induction on their first day in 2018-19
Employee Assistance Program	Achieved – available to all staff for 2018-19
Psychological health strategies	Achieved – strategies implemented in 2018-19
Wellbeing Plan	Achieved – activities undertaken during 2018-19

Table 4: Work health and safety reporting statistics

	2018-19	2017-18	% 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

Data for the past five years are available from data.sa.

Executive employment in the Commission

Table 5: Executive employment

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

Data for the past five years are available from data.sa.

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.

Financial performance

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 those years where a greater number of regulatory determinations are made.

Details of consultant projects are summarised in Table 6 below.

Data of consultant projects 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.

Table 6: Consultant projects 2018-19

Consultants	Purpose	Value
Consultancies below \$10,000 each		
BRM Holdich	Compliance Monitoring and Reporting	\$2,050
Straight Lines Consultancy Pty Ltd	Advice on SA Local Government rate capping scheme	\$2,300
Oakley Greenwood Pty Ltd	Economic Assessment of Reliability Service Standard Options	\$2,662
Marsden Jacob Associates Pty Ltd	Advice on SA Water willingness to pay research	\$5,500
New Focus Pty Ltd	Stakeholder Survey	\$9,350
Grant Thornton Audit Pty Ltd	Review and assessment of current licensing process and controls	\$9,500
	Subtotal	\$31,362
Consultancies above \$10,000 each		
Stillwell Management Consultants	Board Effectiveness Survey	\$11,500
MK Insights	Staff Engagement and Culture Survey	\$12,919
Cardno (QLD) Pty Ltd	National Performance Reporting - Audit of Indicators	\$44,152
	Subtotal	\$68,572
Total all consultancies		\$99,934

Contractual arrangements

Details of the Commission's procurement contracts for 2018-19 are disclosed on the [South Australian Tenders and Contracts website](#).

Contractors

Table 7 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 required SA Government-awarded contracts for goods, services and works. The website also provides details of across government contracts.

Table 7: Contractors 2018-19

Contractor	Purpose	Value
KPMG	Financial modelling	\$15,435
Gus Commercial Consulting (SA) Pty Ltd	Probity advice	\$27,622
Total all contractors		\$43,057

Financial performance of the Commission

The following section summarises the Commission's overall financial position. Full audited financial statements for 2018-19 are in Appendix 2.

Result

The Commission's 2018-19 result was a deficit of \$0.59 million, compared with the budgeted deficit of \$1.48 million. The deficit budget reflected the intent to reduce the surplus in the electricity and gas licence funds held.

Revenue

The Commission's total revenue in 2018-19 was \$5.23 million, down from \$0.57 million in 2017-18. Revenue was sourced from the following industries: Water \$3.80 million; Energy (Electricity and Gas) \$0.90 million; Ports, Rail and Other Sources \$0.52 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 Department for Environment and Water. These transfers are 'Administered Items'. The Commission invoiced licence and administration fees of \$18.40 million in 2018-19 (\$18.45 million in 2017-18) and transferred \$13.70 million (\$13.36 million in 2017-18) as Administered Items (refer to Notes 9 and 26 in Appendix 2 for further details).

The Commission invoiced water licence fees totalling \$9.88 million (\$9.87 million in 2017-18), 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 \$0.38 million.

After the required transfers of \$6.08 million as Administered Items, the Commission's water licence fee revenue was \$3.80 million.

The Commission invoiced energy licence fees (the amounts of which are set by the relevant industry Minister) of \$7.61 million in 2018-19 (\$7.73 million in 2017-18) and retail energy administration fees of \$0.91 million in 2018-19 (\$0.86 million in 2017-18). After the required transfer of \$7.62 million as Administered Items, the Commission's energy licence and administration fee revenue was \$0.90 million (\$1.16 million in 2017-18).

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

In 2017-18, the South Australian Government provided \$0.42 million (\$0.58 million in 2017-18) in funding for ports and rail activities, while the Northern Territory Government provided funding of \$0.03 million (\$0.11 million in 2017-18).

Expenses

The Commission's total expenditure in 2018-19 was \$5.81 million, up from \$5.60 million in 2017-18.

The salary and wage expense was the largest expenditure item, totalling \$4.25 million (\$4.02 million in 2017-18). The supplies and services expense, which includes the use of consultants, was \$1.42 million (\$1.40 million in 2017-18).

Capital

The Commission's capital expenditure in 2018-19 was nil (\$0.01 million in 2017-18).

Overseas travel

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

There were [three overseas trips](#) in 2018-19.

Other financial information

Nil to report.

Data for the past five years are available from [data.sa](#).

Risk management

Risk and internal compliance

The Commission's Risk Management Framework comprises of the Risk Management Policy, Procedures, Plan and Risk Registers.

The Risk Management Framework objectives are to:

- ▶ preserve the Commission's ability to deliver its objectives as identified in the Strategy, in a legally correct, timely, efficient and effective manner
- ▶ maintain the highest possible integrity in all the dealings of the Commission
- ▶ ensure resources and operational capabilities are identified, safeguarded and responsibly and efficiently deployed

- ▶ demonstrate transparent and responsible risk management processes which align with best practice
- ▶ create an environment where all employees assume responsibility for managing risk, and
- ▶ ensure the Commission can appropriately deal with risk.

The Enterprise and Operational risk registers are updated annually, with quarterly, and half-year reviews, respectively. Project risk registers are created at the commencement of major projects, incorporated within the project brief, and then reviewed regularly throughout the project.

Additionally, the Commission has an Internal Legislative Compliance Policy and program established to facilitate the Commission to perform its statutory functions in accordance with its legislative obligations.

The Internal Legislative Compliance Policy supports the Commission’s Risk Management Framework.

Fraud detected in the Commission

No instances of fraud were detected within the Commission during 2018-19.

Strategies implemented to control and prevent fraud

The Commission’s strategy is to have 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 from [data.sa](#). Whistle-blowers’ disclosure

Table 8: 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 are available from [data.sa](#).

Reporting required under any other Act 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.

Part 9A of the Water Industry Act 2012 establishes a South Australian water industry third party access regime and appoints the Commission as the regulator of that access regime. The access 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 access regime, the Commission has the function of monitoring and enforcing compliance with the requirements of the regime.

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.

In addition, the Commission must, within the financial year ending 30 June 2019 and each five years thereafter, undertake a review of the water infrastructure and sewerage infrastructure subject to Part 9A and form a view as to whether or not the access regime should continue. The final report setting out the review's conclusions and recommendations is to be provided to the relevant Minister. The decision to continue or terminate operation of Part 9A of the Act rests with that Minister.

Monitoring outcomes

The Commission was not notified of any non-compliance or access disputes in 2018-19.

In 2018-19, the third party access information brochure was downloaded on five occasions from SA Water's website. SA Water did not receive any formal requests for third party access under the Water Industry Act in that year.

SA Water advises they did, however, establish eleven commercial agreements for third party access outside of the access regime during the year.

2019 review of third party access regime

The Commission undertook a review of the third party access regime in accordance with the Water Industry Act 2012.

In November 2018, the Commission released a consultation paper outlining the access regime and its objectives, and the Commission's planned approach to the review.

In March 2019, the Commission released a draft report. Following a period of public consultation, where the Commission requested evidence and views from stakeholders, the final report on the review was finalised and provided to the Minister for Environment and Water in May 2019.

The Commission's findings were that the access regime provides some overall benefit (as a regulatory backstop to commercial negotiations for access) and therefore should continue for a further five years.

Following the Commission's recommendation, a regulation under the Water Industry Act 2012 was made in June 2019 to extend the operation of the access regime by five years from 1 July 2019.



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 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 2018-19.

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 during 2018-19:

- ▶ continued its review of the South Australian Rail Access Regime Information Kit. This review has focussed on areas where the information and guidelines in the Information Kit could be amended to better facilitate commercial negotiation of access to specified intrastate railway infrastructure services. The Commission expects to finalise this review in the second half of 2019.

- ▶ Monitoring regulatory compliance to ensure that the rail operators:
 - have a sound and effective compliance program
 - report non-compliances of the type required to be reported during the relevant reporting period, and
 - address 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 9: Intrastate rail regulatory revenues and expenses summarises revenues and expenses for these activities for 2018-19, 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 9: Intrastate rail regulatory revenues and expenses

	2018-19 \$'000	2017-18 \$'000
Opening surplus	60	55
Revenue		
SA Government contribution	90	190
Total revenue	90	190
Expenses		
Salaries and on-costs	60	138
Administration	23	47
Total expenses	83	185
Annual surplus/(deficit)	7	5
Closing surplus	67	60

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 2018-19.

Commission's activities

The Commission undertook the following activities during 2018-19:

- ▶ continued its review of rail guidelines for the Tarcoola–Darwin railway. The intent of the review is to identify opportunities to improve the Guidelines so that they may better assist commercial negotiation of railway access, are up-to-date and relevant for existing and prospective railway users, and do not impose undue regulatory costs.
- ▶ Monitoring regulatory compliance to ensure that Genesee and Wyoming Australia Pty Ltd:
 - 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 10: Tarcoola-Darwin rail regulatory revenues and expenses summarises revenues and expenses for 2018-19, together with comparative figures for the previous year. Table 10 shows a surplus for 2018-19. 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 10: Tarcoola-Darwin rail regulatory revenues and expenses

	2018-19 \$'000	2017-18 \$'000
Opening surplus	83	113
Revenue		
SA Government contribution	45	105
NT Government contribution	26	110
Total revenue	71	215
Expenses		
Salaries and on-costs	61	183
Administration	23	62
Total expenses	84	245
Annual surplus/(deficit)	-13	-30
Closing surplus	70	83

Public complaints

Table 11: Number of public complaints reported in 2018-19

Complaint categories	Sub-categories	Example	Number of Complaints
Professional behaviour	Staff attitude	Failure to demonstrate values such as empathy, respect, fairness, courtesy, extra mile; cultural competency	Nil
	Staff competency	Failure to action service request; poorly informed decisions; incorrect or incomplete service provided	Nil
	Staff knowledge	Lack of service specific knowledge; incomplete or out-of-date knowledge	Nil
Communication	Communication quality	Inadequate, delayed or absent communication with customer	Nil
	Confidentiality	Customer's confidentiality or privacy not respected; information shared incorrectly	Nil
Service delivery	Systems/technology	System offline; inaccessible to customer; incorrect result/information provided; poor system design	Nil
	Access to services	Service difficult to find; location poor; facilities/ environment poor standard; not accessible to customers with disabilities	Nil
	Process	Processing error; incorrect process used; delay in processing application; process not customer responsive	Nil
Policy	Policy application	Incorrect policy interpretation; incorrect policy applied; conflicting policy advice given	Nil
	Policy content	Policy content difficult to understand; policy unreasonable or disadvantages customer	Nil
Service quality	Information	Incorrect, incomplete, out dated or inadequate information; not fit for purpose	Nil
	Access to information	Information difficult to understand, hard to find or difficult to use; not plain English	Nil
	Timeliness	Lack of staff punctuality; excessive waiting times (outside of service standard); timelines not met	Nil
	Safety	Maintenance; personal or family safety; duty of care not shown; poor security service/ premises; poor cleanliness	Nil
	Service responsiveness	Service design doesn't meet customer needs; poor service fit with customer expectations	Nil
No case to answer	No case to answer	Third party; customer misunderstanding; redirected to another agency; insufficient information to investigate	Nil

Appendix 1: Performance against Performance Plan 2018-19

The Commission's performance against its approved Performance Plan 2018-19 is summarised as follows, showing status of projects and ongoing work at 30 June 2019.

There were 94 projects listed in the Commission's Performance Plan 2018-19, together with nine additional projects. Of these 103 deliverables, 98 were achieved (or substantially progressed) in the financial year, with five reprioritised for 2019-20.

A summary of 2018-19 performance against the major projects or initiatives in the Commission's Performance Plan 2018-19 is presented in the Table 12 below.

Table 12: Performance Plan 2018-19 Summary of Initiatives and achievement

Industry	Key initiative	Status
Priority 1: We will establish consumer protection frameworks to promote the delivery of service levels valued by consumers at an efficient cost		
	SA Water Regulatory Determination 2020 - Framework and approach and guidance papers	Complete
	Discovery Project – Water Retailers (Identify water retailers not currently licenced or exempted to ensure appropriate authorisation to retail)	Reprioritised to 2019-20
	Commence a review of the Gas Distribution Code and reporting guideline for Australian Gas Networks, to apply from 1 July 2021	Complete
	Finalise review of Electricity Transmission Code	Complete
	Review Electricity Metering Code	In progress
	Review Gas Metering Code	In progress
	Review Energy Prepayment Meter System Code	In progress
	Review of Energy Guideline No. 5 – No early termination fee market contracts	Complete
	Develop and publish Energy Offer Comparison Report 2017 on energy retail offer prices	Complete
	Finalise development of service standard framework for SA Power Networks to apply from 1 July 2020	Complete
	Develop framework and approach for 5-year review of Tarcoola-Darwin revenues	In progress

Industry	Key initiative	Status
	Review guidelines issued under the Tarcoola – Darwin railway third party access Code	In progress
	Review intrastate rail access regime Information Kit	In progress
Priority 2: We will keep regulated entities accountable to their customers through transparent monitoring and public reporting on performance		
	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 regulated entities	Complete
	Develop and publish annual report on Commission's activities related to administration of Tarcoola-Darwin rail access regime (combined with Commission's Annual Report)	Complete
	Develop and publish annual report on Commission's activities related to administration of the intrastate rail access regime (combined with Commission's Annual Report)	Complete
	Review ports performance indicators	Reprioritised to 2019-20
	Annual ports price monitoring report	Complete
	Develop and publish the Power Line Environment Committee annual report on the operations of the undergrounding program	Complete
	Develop and publish REES Annual Report on the outcomes of the REES scheme	Complete
	Determine apportionment of REES targets for the forthcoming REES year and notify retailers	Complete
	Assess retailer achievement of REES targets for the preceding REES year	Complete
	Review and assess retailer compliance plans and information	Complete
	Review and enhance public reporting framework.	Reprioritised to 2019-20
	Develop and publish annual report on Commission's activities related to administration of the Water Third Party Access regime	Complete

Industry	Key initiative	Status
	Administer licencing regime and issues licences and exemptions as required.	Complete
	Administer industry Codes and Guidelines	Complete
Priority 3: We will add value to South Australia by delivering impartial, credible and robust regulatory and economic advice		
	Small scale networks inquiry – Finalise the revised regulatory framework	In progress
	Grain Bulk Export Supply Chain Inquiry	Complete
	Conduct Part 7 ESC Act Inquiries as referred from South Australian Government	Complete
	Provide advice to South Australian Government under ESC Act	Complete
People, culture and systems		
	Develop and publish Commission's Annual Report 2017-18	Complete
	Undertake end of year financial review and finalisation of statutory accounts including Auditor-General review	Complete
	Develop and publish Strategic Plan 2019-2022	The three-year Strategy 2018-2021 remained current and a new strategic plan was not published in 2018-19
	Develop the Performance Plan and budget for 2019-20	Complete
	Develop Workforce Strategy 2019-2022	In progress
	Develop Information Technology Strategy 2019-2022	Complete
	Biannual review of Enterprise Risk Register	Complete
	Complete White Ribbon Accreditation	Process complete
	Complete the Intranet Portal project	In Progress
	Implement a corporate reporting system to link the Strategic Plan, Performance Plan, Work Program and individual Performance Development goal setting	Complete

Appendix 2: Audited financial statements 2018-19

Essential Services Commission

Financial Statements

For the year ended 30 June 2019

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 issued under section 41 of the Public Finance and Audit Act 1987
- 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 2019 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
25 September 2019



Mr Adam Wilson
Chief Executive Officer
25 September 2019



Mr Nick Mahon
Manager, Finance and Information Technology
25 September 2019

Essential Services Commission
Statement of Comprehensive Income
for the year ended 30 June 2019

	Note	2019	2018
		\$'000	\$'000
Expenses			
Employee benefits expenses	2.3	4 245	4 022
Supplies and services	3.1	1 415	1 403
Depreciation and amortisation	3.2	146	146
Other expenses	3.3	8	30
Total expenses		5 814	5 601
Income			
Revenue from licence and administration fees	4.1	4 707	5 098
Contributions from SA Government	4.2	421	576
Revenue from services	4.3	26	110
Other income	4.4	75	13
Total income		5 229	5 797
Net result		(585)	196
Total comprehensive result		(585)	196

The accompanying notes form part of these financial statements. The net result and total comprehensive result are attributable to the South Australian Government as owner.

Essential Services Commission
Statement of Financial Position
as at 30 June 2019

	Note	2019 \$'000	2018 \$'000
Current assets			
Cash and cash equivalents		8 483	8 819
Receivables	6.1	1 146	1 046
Total current assets		9 629	9 865
Non-current assets			
Property, plant and equipment	5.1	211	271
Intangible assets	5.2	110	196
Total non-current assets		321	467
Total assets		9 950	10 332
Current liabilities			
Payables	7.1	177	175
Employee benefits	2.4	364	377
Provisions	7.2	4	4
Other liabilities	7.3	38	-
Total current liabilities		583	556
Non-current liabilities			
Payables	7.1	76	61
Employee benefits	2.4	825	663
Provisions	7.2	5	6
Total non-current liabilities		906	730
Total liabilities		1 489	1 286
Net assets		8 461	9 046
Equity			
Retained earnings		8 461	9 046
Total equity		8 461	9 046
Unrecognised contractual commitments	9.1		
Contingent assets and contingent liabilities	9.2		

The accompanying notes form part of these financial statements. The total equity is attributable to the South Australian Government as owner.

Essential Services Commission
Statement of Changes in Equity
for the year ended 30 June 2019

	Retained earnings	Total equity
	\$'000	\$'000
Balance at 30 June 2017	8 850	8 850
Net result for 2017-18	196	196
Total comprehensive result 2017-18	196	196
Balance at 30 June 2018	9 046	9 046
Net result for 2018-19	(585)	(585)
Total comprehensive result 2018-19	(585)	(585)
Balance at 30 June 2019	8 461	8 461

The accompanying notes form part of these financial statements. All changes to equity are attributable to the South Australian Government as owner.

Essential Services Commission
Statement of Cash Flows
for the year ended 30 June 2019

	2019	2018
	Inflows	Inflows
	(Outflows)	(Outflows)
	\$'000	\$'000
Cash flows from operating activities		
Cash outflows		
Employee benefits payments	(4 085)	(3 993)
Payments for supplies and services	(1 442)	(1 488)
Payments for paid parental leave scheme	(13)	-
Cash used in operations	(5 540)	(5 481)
Cash inflows		
Receipts from licence and administration fees	4 669	5 233
Receipts from SA Government	421	576
Receipts from other services	26	110
Receipts for paid parental leave scheme	13	-
Other receipts	75	13
Cash generated from operations	5 204	5 932
Net cash provided by / (used in) operating activities	(336)	451
Cash flows from investing activities		
Purchase of intangible assets	-	(6)
Cash used in investing activities	-	(6)
Net cash provided by / (used in) investing activities	-	(6)
Net increase / (decrease) in cash and cash equivalents	(336)	445
Cash and cash equivalents at the beginning of the period	8 819	8 374
Cash and cash equivalents at the end of the period	8 483	8 819

The accompanying notes form part of these financial statements.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2019

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Essential Services Commission
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Essential Services Commission

Notes to and forming part of the financial statements

for the year ended 30 June 2019

1. About the Essential Services Commission

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 under 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 of South Australia (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 issued by the Treasurer under 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 2019.

For the financial year 2019 the Commission adopted AASB 9 – Financial Instruments and is required to comply with new Treasurer's Instructions (Accounting Policy Statements) issued on 22 March 2019. Further information is provided in note 8.2.

1.3. Basis of preparation

The financial statements are prepared based on a 12-month reporting 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, 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. The Treasurer has directed the use of the SDA for the purpose of recording all the financial transactions of the Commission.

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 4.1 and 11. The accrual basis of accounting has been used in accounting for administered items.

Essential Services Commission

Notes to and forming part of the financial statements

for the year ended 30 June 2019

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 2019.

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, 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.

GST amounts payable and recoverable from the Australian Taxation Office 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 2019.

1.7. Objectives

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

The Commission undertakes economic regulation 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 2019

1.8. 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 2019.

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 2019

2. Commission, committees and employees

2.1. Key management personnel

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

Total compensation for the Commission's key management personnel was \$1 410 043 (2018: \$1 383 295).

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. There were no reportable transactions between the Commission and any Key Management Personnel and their related parties.

2.2. Commission and committee members

Members that were entitled to receive remuneration (directly and indirectly) for membership during the 2019 financial year were:

Essential Services Commission

Mr Brett Rowse (Chairperson)
Dr Lynne Williams
Mr Geoff Knight (Appointment concluded 16 November 2018)
Ms June Roache
Mr David Round

Consumer Advisory Committee

Mr Brett Rowse (Chairperson)**
Ms Elaine Attwood
Mr Sandy Canale **
Mr Mark Henley
Mr Andrew McKenna
Ms Jane Mussared (Appointment concluded 30 June 2019)
Ms Heather Smith
Mr Ross Womersley

Power Line Environment Committee

Mr Kevin Hamilton (Chairperson)
Ms Pam Andritsakis
Ms Angela Crimes* (Appointment concluded 2 January 2019)
Ms Jo Davidson*
Mr Amit Dua*
Ms Margaret Lee
Mr Mike Magin
Mr Kim Steinle

Customer Negotiation Committee (SA Water Regulatory Determination 2020)

Mr John Hill (Chairperson) (Appointment commenced 25 September 2018)
Ms Margaret Clarke (Appointment commenced 2 November 2018)
Mr Mark Henley (Appointment commenced 15 November 2018)

* 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.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2019

** No remuneration was received by Mr Brett Rowse in the role of Chair of the Consumer Advisory Committee and Mr Sandy Canale has elected to not be remunerated.

Commission and committee remuneration

The number of members* whose remuneration received or receivable falls within the following bands:	2019	2018
	Number	Number
\$0 - \$19 999	16	17
\$20 000 - \$39 999	1	-
\$40 000 - \$59 999	3	3
\$60 000 - \$79 999	2	2
Total number of Commission and committee members	22	22

The total remuneration received or receivable by members was \$329 866 (2018: \$296 529). Remuneration of members includes sitting fees, superannuation contributions, salary sacrifice benefits, fringe benefits and related fringe benefits tax.

* If members sit on multiple committees they are only counted once.

2.3. Employee benefits expenses

	2019	2018
	\$'000	\$'000
Salaries and wages	2 920	2 827
Long service leave	186	106
Annual leave	263	254
Employment on-costs - superannuation	339	328
Employment on-costs - other	171	160
Commission and committee fees*	308	273
Other employee related expenses	58	74
Total employee benefit expenses	4 245	4 022

* 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 2.2 for details of remuneration for Commission and committee members.

Employment on-costs – superannuation

The superannuation employment on-cost charge represents the Commission's contributions to superannuation plans in respect of current services of current employees.

Executive Remuneration

The number of employees whose remuneration received or receivable falls within the following bands:	2019	2018
	Number	Number
\$149 000 - \$151 000	n/a	1
\$151 001 - \$171 000	1	3
\$171 001 - \$191 000	1	-
\$191 001 - \$211 000	1	-
\$211 001 - \$231 000	2	2
\$331 001 - \$351 000	1	-
\$351 001 - \$371 000	-	1
Total	6	7

The \$149 000 to \$151 000 band has been included for the purposes of reporting comparative figures based on the executive base level remuneration rate for 2018-19.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2019

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year, of which 5 (2018: 5) are executive and 1 (2018: 2) 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 \$1 308 383 (2018: \$1 422 249).

Targeted voluntary separation packages

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

2.4. Employee benefits liability

	2019	2018
	\$'000	\$'000
Current		
Accrued salaries and wages	59	62
Annual leave	220	226
Long service leave	85	89
Total current employee benefits	364	377
Non-current		
Long service leave	825	663
Total non-current employee benefits	825	663
Total employee benefits	1 189	1 040

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.

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 the 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.

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. Details about the measurement of long service leave liability is provided at note 10.1.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2019

3. Expenses

Employee benefits expenses are disclosed in note 2.3.

3.1. Supplies and services

	2019	2018
	\$'000	\$'000
Accommodation	414	431
General administration	586	526
Information technology charges	258	179
Consultants	100	224
Contractors	43	15
Other supplies and services	14	28
Total supplies and services	1 415	1 403

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.

Operating leases payments

Operating lease payments (less any lease incentives) are recognised as an expense in the Statement of Comprehensive Income on straight-line basis over the lease term.

Consultants

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

	2019		2018	
	No	\$'000	No	\$'000
Below \$10 000	6	31	3	18
\$10 000 or above	3	69	6	206
Total paid / payable to the consultants engaged	9	100	9	224

3.2. Depreciation and amortisation

	2019	2018
	\$'000	\$'000
Depreciation		
Building fit-out	60	60
Total depreciation	60	60
Amortisation		
Intangible assets	86	86
Total amortisation	86	86
Total depreciation and amortisation	146	146

All non-current assets having limited useful life are systematically depreciated / amortised 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.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2019

Revision of accounting estimates

Asset residual values, useful lives and amortisation methods for intangible assets are reviewed and adjusted if appropriate, on an annual basis. No adjustments were made during the reporting period. Changes in the expected life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate.

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

The amortisation period and the amortisation method for intangible assets is reviewed on an annual basis.

3.3. Other expenses

	Note	2019 \$'000	2018 \$'000
Allowances for doubtful debts	6.1	8	(6)
Derecognition of asset		-	36
Total other expenses		8	30

4. Income

4.1. Revenue from licence and administration fees

	Note	Electricity \$'000	Gas \$'000	Water \$'000	2019 \$'000	2018 \$'000
Licence fees		5 216	2 397	9 880	17 493	17 595
Administration fees		694	211	-	905	859
Administered items	11	(5 387)	(2 228)	(6 076)	(13 691)	(13 356)
Total fees		523	380	3 804	4 707	5 098

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

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2019

4.2. Contributions from South Australian Government

	2019	2018
	\$'000	\$'000
Recurrent contribution from South Australian Government	421	576
Total contributions from South Australian Government	421	576

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

4.3. Revenue from services

	2019	2018
	\$'000	\$'000
Contribution to rail regulatory costs by Northern Territory Government	26	110
Total revenue from services	26	110

4.4. Other income

	2019	2018
	\$'000	\$'000
Other income	75	13
Total other income	75	13

Includes salary reimbursement of \$54 000 and overseas travel reimbursement of \$20 000 in 2019.

5. Non-financial assets

5.1. Property, plant and equipment

	2019	2018
	\$'000	\$'000
Buildings fit-outs		
Building fit-outs at cost (deemed fair value)	566	566
Accumulated depreciation	(355)	(295)
Total buildings fit-outs	211	271
Total property, plant and equipment	211	271

Property, plant and equipment with a value equal to or in excess of \$10 000 is capitalised, otherwise it is expensed.

Property plant and equipment is recorded at fair value. Detail about the Commission's approach to fair value is set out in note 10.2.

Impairment

Property, plant and equipment have not been assessed for impairment as they are non-cash generating assets, that are specialised in nature and held for continual use of their service capacity and are subject to regular revaluation.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2019

Reconciliation of property, plant and equipment

The following table shows the movement of property, plant and equipment for the year ended 30 June 2019.

	Building fit-outs	Total
	\$'000	\$'000
Carrying amount at the beginning of the period	271	271
Depreciation	(60)	(60)
Carrying amount at the end of the period	211	211

5.2. Intangible assets

	2019	2018
	\$'000	\$'000
Internally developed software		
Internally developed computer software at cost (deemed fair value)	240	240
Accumulated amortisation	(180)	(140)
Total internally generated software	60	100
Externally developed software		
Externally developed computer software at cost (deemed fair value)	184	184
Accumulated amortisation	(134)	(88)
Total externally developed software	50	96
Total intangible assets	110	196

Intangible assets are initially 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 acquisition or internal development of software is capitalised only when the expenditure meets the definition and recognition criteria 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 1.5 years and carrying amount of \$60 000 (2018: \$100 000).

Impairment

There were no indications of impairment of intangible assets at 30 June 2019.

Reconciliation of intangible assets

The following table shows the movement of intangible assets for the year ended 30 June 2019.

	Internally developed software	Externally developed software	Work in progress	Total
	\$'000	\$'000	\$'000	\$'000
Carrying amount at the beginning of the period	100	96	-	196
Amortisation	(40)	(46)	-	(86)
Carrying amount at the end of the period	60	50	-	110

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6. Financial assets

6.1. Receivables

	2019	2018
	\$'000	\$'000
Current		
Receivables	923	834
Less allowance for doubtful debts	(41)	(33)
Total receivables	<u>882</u>	<u>801</u>
Accrued revenue	189	201
Prepayments	75	44
Total current receivables	<u>1 146</u>	<u>1 046</u>
Total receivables	<u>1 146</u>	<u>1 046</u>

Receivables arise in the normal course of selling goods and services to other South Australian 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. Receivables are held with the objective of collecting the contractual cash flows and they are measured at amortised cost.

The net amount of GST payable to the Australian Taxation Office is included as part of receivables.

7. Liabilities

7.1. Payables

	2019	2018
	\$'000	\$'000
Current		
Creditors and accrued expenses	127	124
Employment on-costs	50	51
Total current payables	<u>177</u>	<u>175</u>
Non-current		
Employment on-costs	76	61
Total non-current payables	<u>76</u>	<u>61</u>
Total payables	<u>253</u>	<u>236</u>

Payables and accruals are raised for all amounts owing but unpaid. Sundry payables are normally settled within 30 days from the date the invoice is first received. All payables are non-interest bearing. The carrying amount of payables represents fair value due to their short-term nature.

Employment on-costs

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.

As a result of an actuarial assessment performed by Department of Treasury and Finance, the percentage of the proportion of long service leave taken as leave remains at 41% and the average factor for the calculation of the employer superannuation on-costs has decreased from the 2018 rate of 9.9% to 9.8%. These rates are used in the

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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 2019. The rate is used in the payroll tax calculation for long service leave and annual leave.

7.2. Provisions

	2019	2018
	\$'000	\$'000
Current		
Workers' compensation	4	4
Total current provisions	4	4
Non-current		
Workers' compensation	5	6
Total non-current provisions	5	6
Total provisions	9	10
Carrying amount at the beginning of the period	10	4
Additional provisions recognised	(1)	6
Carrying amount at the end of the period	9	10

A provision has been reported to reflect unsettled workers compensation claims. The workers compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2019 provided by a consulting actuary engaged through the Office of the Commissioner for the Public Sector. The provision is for the estimated cost of ongoing payments to employees as required under current legislation.

The Commission is responsible for the payment of workers compensation claims.

7.3. Other liabilities

	2019	2018
	\$'000	\$'000
Current		
Unearned revenue	38	-
Total current other liabilities	38	-
Total other liabilities	38	-

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

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8. Changes in accounting policy

8.1. Treasurer's Instructions (Accounting Policy Statements)

On 22 March 2019 the Treasurer's Instructions (Accounting Policy Statements) 2019 were issued by the Treasurer under the Public Finance and Audit Act 1987. The Accounting Policy Statements replaced the following Accounting Policy Frameworks:

- Purpose and Scope
- General Purpose Financial Statements Framework
- Asset Accounting Framework
- Financial Asset and Liability Framework
- Income Framework, and
- Definitions.

The new Accounting Policy Statements have largely been prepared on a no-policy change basis. Changes that impact on these financial statements are:

- Removal of the additional requirement to report transactions with the South Australian Government.
- Removal of the additional requirement to report a Statement of Equity for administered items.
- Increasing the bands from \$10 000 to \$20 000 for Commission, committees and employees reporting.

These changes, however, do not impact on the amounts reported in the financial statements.

The Accounting Policy Statements also set out requirements in relation to Accounting Standards and Statements not yet effective. This is further discussed in note 9.3.

8.2. AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces the provisions of AASB 139 that relate to recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of AASB 9 from 1 July 2018 resulted in changes in accounting policies and no adjustments to the amounts recognised in financial statements.

As part of the adoption of AASB 9, the Commission adopted consequential amendments to other accounting standards and the Treasurer's Instructions (Accounting Policy Statements) arising from the issue of AASB 9 as follows:

- AASB 7 Financial Instruments: Disclosures requires amended disclosures due to changes arising from AASB 9. These disclosures have been provided for the current year because the comparatives have not been restated.

In accordance with transitional provisions and the Treasurer's Instructions (Accounting Policy Statements), AASB 9 Financial Instruments was adopted without restating comparative information for classification and measurement requirements. All adjustments relating to classification and measurement are recognised in retained earnings at 1 July 2018.

The adoption of AASB 9 has not had a significant effect on the recognition, measurement or classification of financial liabilities. There has been no impact on the Commission's retained earnings as at 1 July 2018.

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On 1 July 2018, the Commission has assessed and reclassified its financial assets into the appropriate AASB 9 categories depending on the business model and contractual cash flow characteristics applying to the asset. AASB 9 eliminates the AASB 139 categories of held to maturity, loans and receivables and available for sale.

On the date of initial application, the Commission's financial instruments were as follows, with any reclassifications noted.

	Measurement category		AASB 139 at 30 June 2018 \$'000	Carrying amount re- measurement \$'000	AASB 9 at 1 July 2018 \$'000
	AASB 139	AASB 9			
<u>Current financial assets</u>					
Cash and cash equivalents	Held to maturity	Amortised cost	8 819	-	8 819
<u>Current financial liabilities</u>					
Payables	Amortised cost	Amortised cost	89	-	89

9. Outlook

9.1. Unrecognised contractual commitments

Commitments arise from contractual or statutory sources and are disclosed at their nominal value.

Expenditure commitments

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

	2019 \$'000	2018 \$'000
Within one year	-	15
Total expenditure commitments	-	15

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 the payments of the contracts in existence at the reporting date but not recognised are payable as follows:

	2019 \$'000	2018 \$'000
Within one year	420	405
Later than one year but not later than five years	1 074	1 494
Total operating lease commitments	1 494	1 899

9.2. 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.

The Commission is not aware of any contingent assets or contingent liabilities as at 30 June 2019.

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9.3. Impacts of standards and statements not yet effective

The Commission has assessed the impact of new and changed Australian Accounting Standards Board Standards and Interpretations (not yet effective).

Treasurer's Instructions (Accounting Policy Statements) 2019 issued by the Treasurer on 22 March 2019 are effective for 2018-19 reporting period and are addressed below in relation to Standards that are not yet effective and in note 8.1. There are no Accounting Policy Statements that are not yet effective.

The material impacts on the Commission are outlined below.

AASB 16 – Leases

The Commission will adopt AASB 16 – Leases from 1 July 2019.

Objective

AASB 16 sets out a comprehensive model for lease accounting that addresses recognition, measurement, presentation and disclosure of leases. The outcome will be that lease information disclosed will give users of financial statements a basis to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. AASB 16 Leases replaces AASB 117 Leases and Interpretation 4 Determining whether an Arrangement contains a Lease, Interpretation 115 Operating Leases – Incentives and Interpretation, and Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Impact on 2019-20 financial statements

The Commission has assessed the estimated impact on the Statement of Financial Position of adopting AASB 16 with the transition requirements mandated by the Treasurer's Instructions (Accounting Policy Statements).

AASB 16 requires lessees to recognise assets and liabilities for all leases not subject to a recognition exemption or scoped out of the application of AASB 16. Applying AASB 16 will result in leases previously classified as operating leases having right-of-use assets and related lease liabilities being recognised in the Statement of Financial Position for the first time. Lease incentive liabilities previously recognised will be written off against the right-of-use assets or retained earnings depending on the nature of the incentive.

AASB 16 is expected to have a material impact on the Statement of Financial Position. The Commission has estimated the impact of this change and the results as at 1 July 2019.

The estimated impact is based on applying AASB 16's transition approach to those leases identified as leases by the Commission prior to 1 July 2019. The incremental borrowing rates applied to estimate the lease liability are the Department of Treasury and Finance's incremental borrowing rates at 1 July 2019. The estimated impact is set out below.

	as at 1 July 2019 \$'000
<u>Assets</u>	
Right-of-use assets	3 926
<u>Liabilities</u>	
Lease liabilities	<u>(3 926)</u>
Net impact on equity	<u><u>-</u></u>

AASB 16 will also impact on the Statement of Comprehensive Income. The operating lease expense previously included in supplies and services will mostly be replaced with:

- A depreciation expense that represents the use of the right-of-use asset; and
- Borrowing costs that represent the cost associated with financing the right-of-use asset.

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The estimated impact on 2019-20 Statement of Comprehensive Income is set out below.

	2020
	\$'000
Depreciation and amortisation	462
Supplies and services (lease expense)	(371)
Borrowing costs	67
Net impact on net cost of providing services	158

The amounts disclosed are current estimates only. The Commission is continuing to refine its calculations of lease assets and liabilities for 2019-20 financial reporting purposes and expects that these figures will change. This includes accounting for non-lease components and clarifying lease terms and treatment of contractual rent increases.

Related accounting policies

The Treasurer's Instructions (Accounting Policy Statements) 2019 sets out key requirements that the Commission must adopt for the transition from AASB 117 Leases to AASB 16 Leases. These requirements include that the Commission will:

- Apply AASB 16 retrospectively. The cumulative effect of initially applying the Standard will be recognised at 1 July 2019. Comparatives will not be restated.
- Only apply AASB 16 to contracts that were previously identified as containing a lease applying AASB 117 and related interpretations.
- Not transition operating leases for which the lease term ends before 30 June 2020.

The Treasurer's Instructions (Accounting Policy Statements) 2019 also sets out requirements for ongoing application. These requirements include that the Commission will:

- Not apply AASB 16 to leases of intangible assets.
- Adopt \$15 000 as the threshold to determine whether an underlying asset is a low value asset and apply the low value asset recognition exemption to all low value assets.
- Apply the short-term leases recognition exemption for all classes of underlying asset.
- Separate non-lease components from lease components.
- Adopt the revaluation model, where permitted.
- Where required, apply the relevant lessee's incremental borrowing rate published by the Department of Treasury and Finance.
- On initial recognition not record at fair-value leases that have significantly below-market terms and conditions principally to enable the Commission to further its objectives, unless they have already been recorded at fair-value prior to 1 July 2019.

9.4. Events after the reporting period

Adjustments are made to amounts recognised in the financial statements, where an event occurs after 30 June 2019 and before the date the financial statements are authorised for issue, where those events provide information about conditions that existed at 30 June 2019.

Note disclosure is made about events between 30 June 2019 and the date the financial statements are authorised for issue where the events relate to a condition which arose after 30 June 2019 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.

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10. Measurement and risk

10.1. Long service leave liability

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 the South Australian Government.

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 decreased from 2.5% to 1.25% in 2019. This decrease in the bond yield, which is used as the rate to discount future long service leave cash flows, results in an increase in the reported long service leave liability.

The net financial effect of the changes to actuarial assumptions in the current financial year is an increase in the long service leave liability of \$82 966 and employee benefits expense of \$124 235. 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. As a result there is no net financial effect resulting from changes in the salary inflation rate.

Current long service leave reflects the portion of leave expected to be settled within the next 12 months, based on the average of long service leave taken over the past 3 years.

10.2. Fair value

AASB 13 Fair Value Measurement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market, at the measurement date.

Initial 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.

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 \$1.5 million and estimated useful life is greater than three years.

Plant and equipment

All items of plant and equipment had a fair value at the time of acquisition less than \$1.5 million. Plant and equipment has not been revalued in accordance with APS 116D. The carrying value of these items are deemed to approximate fair value.

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10.3. Financial instruments

Financial risk management

Risk management is overseen by the Commission and the Commission's Leadership 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.

Categorisation of financial instruments

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised with respect to each class of financial asset, financial liability and equity instrument are disclosed in the respective financial asset / financial liability note.

Classification from 1 July 2018 under AASB 9 Financial Instruments

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income (**FVOCI**) – debt instrument, **FVOCI** – equity instrument or fair value through profit or loss.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest only on the principal amount outstanding.

The Commission measures all financial instruments at amortised cost.

Category of financial asset and financial liability	Note	Contractual maturities	
		Carrying amount / FV	Carrying amount / FV
		2019 \$'000	2018 \$'000
Financial assets at amortised cost			
Cash and cash equivalents		8 483	8 819
Total financial assets		8 483	8 819
Financial liabilities at amortised cost			
Payables	7.1	90	89
Total financial liabilities		90	89

Payables

Amount of payables disclosed excludes amounts relating to statutory payables (Commonwealth, State and Local Government taxes, fees and charges; Auditor-General's Department audit fees).

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11. 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 2019 \$2 096 125 (2018: \$2 045 000) 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 2019 \$284 404 (2018: \$277 268) 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 2019 \$10 401 713 (2018: \$10 148 013) 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 2019 \$542 963 (2018: \$529 720) 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 2019 \$365 407 (2018: \$356 495) was transferred.



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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 2019.

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 2019, 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 2019
- a Statement of Financial Position as at 30 June 2019
- a Statement of Changes in Equity for the year ended 30 June 2019
- a Statement of Cash Flows for the year ended 30 June 2019
- notes, comprising significant accounting policies and other explanatory information
- 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, but not for the purpose of expressing an opinion on the effectiveness of the Essential Services Commission of South Australia's internal control
- 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 'Andrew Richardson', with a long horizontal stroke extending to the right.

Andrew Richardson

Auditor-General

25 September 2019

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