

WORK PROGRAM 2010/11

Updated July 2010





INTRODUCTION



This is our eighth annual work program. It has been developed to reflect the goals and strategies that we will pursue in promoting the long-term interests of Victorian consumers of essential utility services. It also reflects an assessment of the main external challenges and regulatory demands that will affect the pursuit of our corporate goals this year.

Throughout the year, we will continue to assess our priorities and, as necessary, adjust and update our ongoing work program to reflect any changes in the external market environment and unanticipated regulatory obligations.

This includes any new regulatory functions and inquiries, special investigations or reviews that may be referred by the Victorian Government during the year.

We will also focus on identifying and implementing initiatives aimed at improving the efficiency and effectiveness of our internal support services, as well as identifying opportunities to advise Government on regulatory and other matters.

Dr Ron Ben-David
Chairperson

The Essential Services Commission is the economic regulator of essential services in Victoria, principally the retail electricity and gas, water, ports and rail freight industries. We also provide advice to the Victorian Government on matters affecting these industries and matters in other industry sectors.

For example, in 2009-10 the Government requested that the Commission advise on and develop a performance monitoring framework for local government in the state; the Government also sought advice on charges to apply to vehicle accident towing and storage. In addition, we are responsible for the administration of the Victorian Energy Efficiency Target (VEET) scheme.

Before each financial year, we develop a work program to identify our key projects and ongoing activities for the following 12 months.

OUR STATUTORY OBJECTIVE

As defined by the *Essential Services Commission Act 2001*, our principal objective is 'to promote the long-term interests of Victorian consumers', with regard to the price, quality and reliability of essential services.

OUR ROLE

The Victorian Government established the Essential Services Commission on 1 January 2002. The *Essential Services Commission Act 2001* establishes our organisation as the primary economic regulator of essential services in Victoria and an independent adviser to the Victorian Government on a range of regulatory and other matters.

The *Essential Services Commission Act 2001* (as amended in July 2008) states that the Commission's purpose is to 'perform its regulatory and advisory functions in a manner that provides incentives for dynamic, productive and allocative efficiency and promotes the long-term interests of Victorian consumers'.

The Commission comprises a full-time Chairperson and two part-time Commissioners, who are all appointed by the Governor in Council to serve five-year statutory terms.

WHAT WE DO

We facilitate the efficient delivery of services and promote the economic interests of consumers by solving problems relating to:

Incentives for investment and productivity within an industry

Promoting competition and designing efficient regulation

The transparency of information and monitoring price and service performance

Cost structures and revenue adequacy of firms or industries

Pricing efficiency, including the level and structure of fares, tariffs, rates and fees

Industry and firm profitability and financial viability including the provision of public subsidies

Equity and customer impact, including the needs of vulnerable customers

Events and incidents in the utilities sector





In assisting Government deal with regulatory issues we are able to bring to bear six distinctive competencies:

Independence

Commission advice has the benefit of being independent from Government, departments and other agencies. Advice, where public, can engender greater confidence and at the same time be cognisant of the broader public issues and priorities involved

Specialist expertise

Bringing to bear expertise in applied economics, financial and cost analysis and benchmarking as well as the design and operation of markets and regulatory frameworks

Innovation and focus

A commitment to, and history of, timely and well-accepted problem-solving that supports good decision-making by business and government in the interests of all Victorians

Public and industry consultation

Well-developed processes for understanding and communicating issues that affect community or customer interests

Transparent reporting

Being able to convince a range of stakeholders about complex issues and how it reflects their contribution through consultation

Information gathering powers

Experience in identifying and sourcing relevant information, using where appropriate, statutory powers and protecting confidential and commercially sensitive information


OUR FUNCTIONS

Our functions differ in each regulated industry, currently being retail electricity and gas, water and sewerage, ports, rail, statutory insurance and transport sectors. Generally they involve price regulation, service standards, market conduct and consumer protection.

We also provide advice to government in a range of sectors, including the regulated industries and in local government.

In addition, we administer the Victorian Energy Efficiency Target scheme.





The functions of the Essential Services Commission include:

Reviewing the continuing need for and approach to, regulating infrastructure services

Reviewing prices and service standards

Issuing, amending and revoking licences, and monitoring compliance with licence conditions

Developing, amending and monitoring businesses' compliance with regulatory instruments (ie: licences, codes and guidelines)

Monitoring and reporting publicly on regulated businesses' performance

Approving tariffs and charges that regulated businesses levy for regulated services

Conducting public education programs on the regulatory framework and ensuring that the framework adequately protects customers

Resolving access and other disputes between service providers and users

Responding to customer inquiries about regulatory matters

The manner in which we undertake each function and consult with interested parties differs, depending on the area of regulation and relevant statutory requirements.

OUR GOALS

Our corporate goals cover our activities in the regulatory and advisory fields. In undertaking these roles, we will provide thought leadership in adapting economic regulation to changing circumstances and to new industries.

To ensure value for money for consumers

To prevent the misuse of market power by service providers

To support Government in addressing problems related to service, quality, price and potential market failure in various industry sectors

To leverage our knowledge base to create new possibilities to help consumers, regulated businesses and government



**2010-11 WORK PROGRAM
BY INDUSTRY SECTOR**



ENERGY

Overview

Our 2010–11 work program covers the retail electricity and gas sectors, and the administration of the State-based energy efficiency target scheme.

Major decisions and strategic initiatives for 2010–11 include:

Continuing the ongoing administration of the Victorian Energy Efficiency Target scheme, including the introduction of new activities and expanding the audit program

Completing a regulatory review of the roll-out within Victoria of the advanced metering infrastructure (smart meters) for electricity customers

Developing further initiatives to assist customers, particularly low-income and vulnerable customers, in accessing competitive energy markets

Supporting leadership on national approaches to energy regulation, while facilitating the foreshadowed transfer of retail regulation to the Australian Energy Regulator and the Australian Energy Market Commission in 2011-12

We will conduct core programs overseeing compliance and performance reporting by regulated businesses, processing and issuing energy distribution and retail licences. We will also continue to address customer issues, including by liaising with the Energy and Water Ombudsman (Victoria) and customer

advocacy bodies. In addition we will continue to provide consumer information and education about the evolving energy markets. We will also respond to Government policy initiatives as they arise and to legislative changes in energy-related areas.

Project timeframes are noted for quarterly commencement and completion (ie: Q1-Q4):

Victorian Energy Efficiency Target (VEET) scheme

Accredit participants, register certificates, publish electronic registers; auditing and compliance.

Ongoing

Customer education and information

Provide advice and information to consumers through the Your Choice website, call centre services and associated communications.

Q1-Q4

Energy retail compliance and enforcement

Compile annual reports on retailers' compliance with licence obligations.

Q1-Q4

Regulatory review – smart meters

Finalise review of regulatory instruments for the rollout of advanced metering infrastructure (smart meters).

Q1

Energy and Water Ombudsman (Victoria)

Liaise with the Energy and Water Ombudsman (Victoria) on energy issues, as outlined in the joint Memorandum of Understanding.

Q1-Q4

Energy retail audit

Undertake audits of energy retailers for compliance with licence obligations.

Q2-Q4

Assessment of electricity feed-in tariffs

Advise, on request, the Minister for Energy and Resources on the fairness and reasonableness of feed-in tariffs.

Q1-Q4

National regulatory framework

Contribute to the development of national regulation and the facilitation and transfer of regulation overseen to the Australian Energy Regulator.

Q1-Q4

Energy retail price monitoring and reporting

Provide price monitoring reports to Government on retail competitive offers.

Q2

Energy retail performance reporting and monitoring

Monitor and report on annual performance of electricity and gas retail licensees.

Q2

Licensing

Approve licence applications, revocations and certificates of exemption.

Ongoing

Victorian Renewable Energy Target (VRET) scheme

Complete administration of the VRET scheme ahead of the final transfer of administrative responsibility to the Federally-based Office of Renewable Energy Regulator.

Q1-Q2

LOCAL GOVERNMENT AND WATER

Overview

In 2010-11, our main focus in local government is to develop a local government services report for the State's 79 municipal councils, while in water it is to develop an access regime for the State's water sector.

We will publish a pilot services report, based on available data from selected metropolitan and regional councils. This pilot report will assist in establishing a full services reporting regime for all councils in Victoria, to take effect in 2011–12.

In water, we will implement a new Customer Service Code, and release our sixth state-wide report on the performance of the urban water businesses in metropolitan and regional areas.



Local government services – pilot report

Publish a pilot services report, based on available data collected by selected municipal councils.

Q1-Q3*

Review of Customer Service Code

Review the water Customer Service Code to introduce a Guaranteed Service Level (GSL) measure for hardship.

Q1-Q4

New Customer Contribution Guideline

Issue a guideline to assist in the application of New Customer Contribution charges.

Q1-Q2

Review of regulatory accounts

Undertake a review of the 2009–10 regulatory accounts for all water businesses.

Q1-Q2

Urban water performance reporting

Report on the annual performance of all metropolitan and regional urban water businesses. Contribute data to national reports.

Q1-Q4

Annual tariff approvals

Approve tariffs submitted by the water businesses for 2011–12.

Q2-Q4

Water Price Review

Commence preparatory work and guide water businesses in preparing for next review of water prices.

Q3-Q4

Water Access Review

Begin implementing stage one of Commission recommendations for establishing a state-wide water access framework.

Q1-Q4

Annual compliance audits

Undertake audits of 17 water businesses for compliance with our performance framework, customer service code, price determinations and other relevant regulatory requirements.

Q1-Q2

Tariff Structure Paper

Issue a guidance paper to assist businesses in undertaking their tariff reviews and developing pricing proposals for the 2013-2018 regulatory period.

Q2-Q3

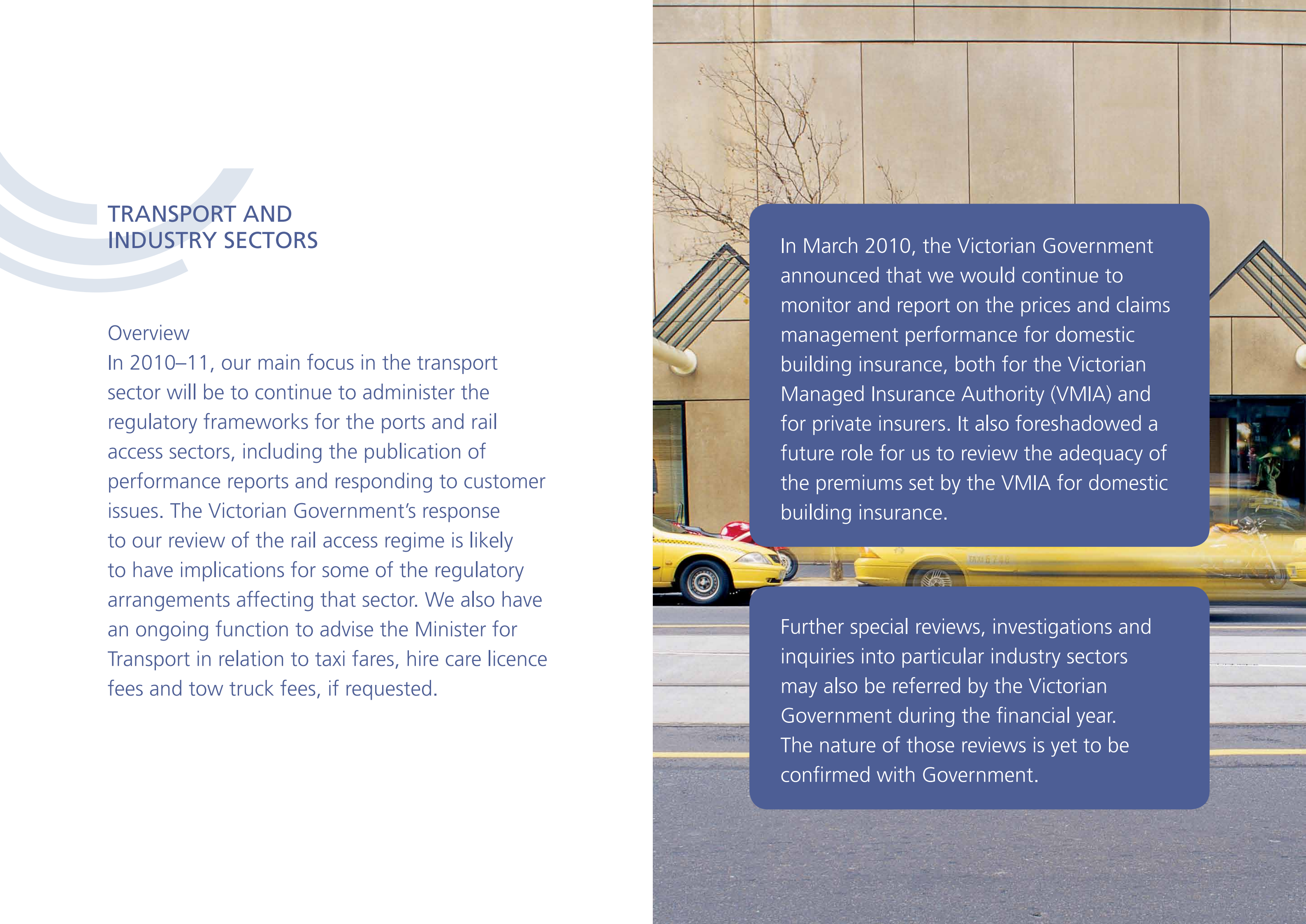
*Commencement and completion.



TRANSPORT AND INDUSTRY SECTORS

Overview

In 2010–11, our main focus in the transport sector will be to continue to administer the regulatory frameworks for the ports and rail access sectors, including the publication of performance reports and responding to customer issues. The Victorian Government's response to our review of the rail access regime is likely to have implications for some of the regulatory arrangements affecting that sector. We also have an ongoing function to advise the Minister for Transport in relation to taxi fares, hire care licence fees and tow truck fees, if requested.



In March 2010, the Victorian Government announced that we would continue to monitor and report on the prices and claims management performance for domestic building insurance, both for the Victorian Managed Insurance Authority (VMIA) and for private insurers. It also foreshadowed a future role for us to review the adequacy of the premiums set by the VMIA for domestic building insurance.

Further special reviews, investigations and inquiries into particular industry sectors may also be referred by the Victorian Government during the financial year. The nature of those reviews is yet to be confirmed with Government.



Review rail instruments

Review regulatory instruments in the Victorian rail sector to give effect to the State Government's response to the review of the rail access regime.

Q2-Q3*

Review rail access arrangements

Review metropolitan rail access arrangements, which are due to expire in July 2011.

Q3-Q4

Ports monitoring

Ensure the Port of Melbourne Corporation complies with the Price Monitoring Determination and advise Government of any complaints.

Ongoing

Administer Rail Access Regime

Ensure Victoria's rail access providers comply with the Victorian Rail Access Regime.

Ongoing

Domestic building insurance – performance monitoring

Monitor the pricing and claims management of domestic building insurance.

Q1-Q4

*Commencement and completion.



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