



SA Water Regulatory Determination 2020: Monitoring and evaluating performance

Consultation on implementing the final decisions

October 2020

Request for submissions

The Essential Services Commission (**Commission**) invites written submissions on this paper by **Friday, 6 November 2020**.

It is the Commission's policy to make all submissions publicly available via its website (www.escosa.sa.gov.au), except where a submission either wholly or partly contains confidential or commercially sensitive information provided on a confidential basis and appropriate prior notice has been given.

The Commission may also exercise its discretion not to publish any submission based on length or content (for example containing material that is defamatory, offensive or in breach of any law).

Responses to this paper should be directed to: **SA Water Regulatory Determination 2020: Monitoring and Evaluating Performance**

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Glossary of terms

Term	Description
Code	Water Retail Code – Major Retailers
Commission	Essential Services Commission, established under the <i>Essential Services Commission Act 2002</i>
ESC Act	<i>Essential Services Commission Act 2002</i>
RBP	Regulatory Business Proposal
SA Water	South Australian Water Corporation
SAWRD20	SA Water Regulatory Determination 2020
SAWRD24	SA Water Regulatory Determination 2024
WI Act	<i>Water Industry Act 2012</i>

Executive summary

The purpose of this paper is to invite feedback from stakeholders on the proposed approach to implementing the monitoring evaluation and reporting framework set out in the SA Water Regulatory Determination 2020 Final Determination. While the key elements of the framework have already been publicly consulted upon and decided, this process invites feedback on the proposed approach to the practical implementation of those decisions.

This paper sets out the Commission's expectation that SA Water take responsibility for developing the form of its public reports to meet the Commission's requirements, and stakeholders' reasonable expectations, in consultation with its customers and other stakeholders. The Commission expects to see evidence of how SA Water has responded to the issues raised by stakeholders in developing its public reporting approach.

Submissions are welcomed by **Friday, 6 November 2020**.

In June 2020, the Essential Services Commission (**Commission**) made a regulatory determination in relation to the maximum revenue that the South Australian Water Corporation (**SA Water**) can recover from the provision of drinking water and sewerage retail services from 1 July 2020 to 30 June 2024: SA Water Regulatory Determination 2020 (**SAWRD20**).¹

The proposals set out in this paper were foreshadowed in the SAWRD20 Final Determination and are intended to introduce more transparency into SA Water's ongoing investment planning and evaluation processes. This should minimise the occurrence of unforeseen investment needs being presented for stakeholder consideration at the start of the Commission's SA Water Regulatory Determination 2024 (**SAWRD24**) review process.

The purpose of the Commission's proposed framework is to provide an appropriate level of independent oversight of SA Water's ongoing progress in developing, monitoring, evaluating and reporting on how its operational and longer-term investment decisions are delivering benefits to its customers, stakeholders and its owner. The Commission will verify and provide assurance on the underpinning data collection, analysis and reporting systems used by SA Water through assurance statements, reviews and audits, as required.

Importantly, the Commission's proposed framework does not seek to duplicate SA Water's existing internal monitoring and evaluation activities. Rather, it seeks to introduce a greater level of transparency in key areas that are likely to be of interest to SA Water's stakeholders. This enhanced transparency will also assist with SA Water identifying and taking responsibility for issues identified with its current systems and processes that may need further refinement.

It is expected that, over time, this greater level of transparency will assist stakeholders to hold SA Water to account for its performance and provide the information necessary to more effectively participate in regulatory determination processes, to the extent they wish to do so.

Initially, the proposed framework will focus on four areas:

- ▶ service standards with performance targets (an existing requirement)
- ▶ expenditure and revenue outcomes (an existing requirement)
- ▶ key investment areas (a proposed enhancement), and

¹ SA Water Regulatory Determination 2020, Final Determination, June 2020, available at: <https://www.escosa.sa.gov.au/projects-and-publications/projects/water/sa-water-regulatory-determination-2020>.

- ▶ long-term asset management and planning (a proposed enhancement).

However, a framework of the nature proposed is able to evolve over time, with additional areas able to be added where there is value for stakeholders in doing so.

The Commission welcomes feedback on the proposals set out in this paper. Matters raised by stakeholders will be considered before the final framework is published in December 2020.

Consultation questions:

Service standards with performance targets

- ▶ Is SA Water's current quarterly performance scorecard easy to locate on its website and does it provide a sufficient level of information on its performance? If not, what improvements are required?
- ▶ In what format should SA Water provide the underlying time series data previously reported by the Commission?²

Expenditure and revenue outcomes

- ▶ Are there any groups of customers or other stakeholders that SA Water should include in the development of the format for the annual regulatory revenue controls report to ensure the information provided is accessible and inclusive?

Key investment areas

- ▶ Are the key investment areas selected by the Commission an appropriate starting point for the initial annual investment performance report in 2020-21?
- ▶ Are there any other key investment areas that should be included in the initial annual report?
- ▶ Are there any groups of customers or other stakeholders that SA Water should include in the development of the format for the annual investment performance report to ensure the information provided is accessible and inclusive?

Long-term asset management and planning

- ▶ How valuable was the information provided in SA Water's high-level overview of its 30-year asset management plan? What information was missing?
- ▶ Are there any groups of customers or other stakeholders that SA Water should include in the development of the format for the annual update on its long-term asset management plan to ensure the information provided is accessible and inclusive?

² SA Water's historical time series data is available at <https://www.escosa.sa.gov.au/industry/water/regulatory-reporting/regulatory-performance-reports>.

1 Background and context

1.1 Power to make regulatory determinations

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 responsibility in the water, sewerage, electricity, gas, rail and maritime services, and a general advisory function on regulatory and economic 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:

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

The *Water Industry Act 2012* (**WI Act**) and the *ESC Act* provide the Commission with functions and powers to make industry codes and rules and price determinations for water industry entities.

1.2 SA Water Regulatory Determination 2020

In June 2020, the Commission made a regulatory determination (SA Water Regulatory Determination 2020 (**SAWRD20**))³ in relation to the maximum revenue that the South Australian Water Corporation (**SA Water**) can recover from the provision of drinking water and sewerage retail services from 1 July 2020 to 30 June 2024.

Alongside the revenue controls set, SAWRD20 also involved the Commission:

- ▶ reviewing, amending and enhancing consumer protections contained in industry codes and rules
- ▶ reviewing and resetting the customer service and network reliability service standards with associated performance targets
- ▶ making a price determination for the sale and supply of recycled water and 'excluded' retail services, which include the provision of connection services and trade waste services, and
- ▶ reviewing the performance monitoring and reporting framework, noting that further consultation would occur on those matters during 2020.

The Commission's regulatory determinations are part of a long-term and ongoing system governing certain aspects of the way SA Water provides drinking water and sewerage retail services. These regular four-yearly reviews provide an opportunity to publicly review SA Water's past performance and future plans, in the context of the longer-term operating environment.

The Commission's final decision was that, for the SAWRD20 regulatory period, SA Water must provide public reports on:

- ▶ its performance against the service standards in the Code, on a quarterly basis
- ▶ its performance in delivering on network reliability and water aesthetics improvements

³ SA Water Regulatory Determination 2020, Final Determination, June 2020, available at: <https://www.escosa.sa.gov.au/projects-and-publications/projects/water/sa-water-regulatory-determination-2020>.

- ▶ its performance during major service interruptions or significant performance events, shortly after those events, and
- ▶ its progress in achieving the outcomes it has committed to deliver in its final regulatory business plan, on an annual basis.

The SAWRD20 Final Determination also set an expectation that SA Water would develop, and publicly report on, its longer-term asset management plans and expected expenditure profile, updated on a rolling annual basis.

However, the SAWRD20 Final Determination also noted that as there had been widespread interest from stakeholders on ensuring SA Water is held to account for delivering on the requirements set through the regulatory determination, there was likely to be benefit in seeking further input from stakeholders on the final form of the framework.

1.3 Increasing transparency and accountability for performance during regulatory periods

A clear message that emerged through the SAWRD20 process from consumers and stakeholders was a desire for increased public transparency and accountability on SA Water in relation to its expenditure and the extent to which that expenditure delivers the outcomes promised.

During the SAWRD16 regulatory period SA Water reported on its achievement (or otherwise) of service standards, but stakeholders were not able to evaluate and understand the efficiency and effectiveness of major expenditure and investment by SA Water. The lack of information on past performance, and the extent to which the proposed expenditure was necessary rather than discretionary, made it more difficult for stakeholders to comment on the appropriateness of some of the projects, programs and initiatives SA Water had proposed for the SAWRD20 regulatory period.

The SAWRD20 review process identified various areas where SA Water is expected to continue to make improvements to its asset management system and its investment planning and prioritisation processes. These improvements are required if SA Water is going to provide the Commission, customers, other stakeholders and its owner with confidence that it is continually striving to deliver the water and sewerage retail services its customers value at the lowest long-term sustainable cost.

It also set an expectation that SA Water develop its regulatory business proposal for the 1 July 2024 to 30 June 2028 regulatory period (**SAWRD24**) in a more open, transparent and collaborative way.

1.4 A system of verified trust and accountability

The Commission cannot make changes to SA Water's internal governance, planning and service delivery processes: that is SA Water's responsibility.

SA Water has expressed a desire and commitment to continuous improvement and acknowledged the need for it to take more direct accountability for its performance.

Importantly, the Commission's proposed framework does not seek to duplicate SA Water's existing internal monitoring and evaluation activities. Rather, it seeks to introduce a greater level of transparency in key areas that are likely to be of interest to SA Water's stakeholders. This enhanced transparency will also assist with identifying issues with SA Water's current systems and processes that need further refinement.

The purpose of the Commission's proposed framework, therefore, is to provide an appropriate level of independent oversight of SA Water's ongoing progress in developing, monitoring, evaluating and reporting on how its operational and longer-term investment decisions are delivering benefits to its

customers, stakeholders and its owner. SA Water will be expected to publicly explain its service, expenditure and investment performance outcomes.

The Commission will verify and provide assurance on the underpinning data collection, analysis and reporting systems used by SA Water through assurance statements, reviews and audits, as required. If SA Water's self-assessments are robust, the Commission will focus its attention on monitoring longer-term trends.

However, the success of this approach depends on SA Water's response to the call from stakeholders for greater transparency around performance outcomes and earlier identification of, and discussion on, future investment needs.

It is expected that, over time, this greater level of transparency will assist stakeholders to hold SA Water to account for its performance and provide the information necessary to participate more effectively in regulatory determination processes, to the extent they wish to do so.

In the event that the Commission is not satisfied that SA Water's public reporting fairly reflects its actual performance (short- and long-term), it may require SA Water to restate information or revise the systems, processes and controls which underpin its reporting. The Commission may resume its own reporting of SA Water performance data in the event that SA Water fails to satisfy either the Commission or stakeholders that it is doing so adequately.

1.5 Trialling self-reporting by SA Water on 2020-21 performance outcomes

Initially, the proposed framework will focus on four areas:

- ▶ Chapter 2 – service standards with performance targets (an existing requirement)
- ▶ Chapter 3 – expenditure and revenue outcomes (an existing requirement)
- ▶ Chapter 4 – key investment areas (a proposed enhancement), and
- ▶ Chapter 5 – long-term asset management and planning (a proposed enhancement).

However, a framework of the nature proposed is able to evolve over time. This could include exploring existing areas in more detail, where data trends or wider market intelligence suggests that it would be valuable to do so, or expanding reporting into new areas that could provide valuable insights for stakeholders.

It is proposed that the next tranche of reporting requirements will be developed, in consultation with SA Water and stakeholders, following the assessment of the first set of annual reports in the second half of 2021.

2 Service standards with performance targets

The Water Retail Code – Major Retailers (**Code**) includes a series of service standards with performance targets that SA Water is required to meet, on an annual basis.⁴

The service standards cover aspects of customer service, responsiveness to service issues, service restoration timeliness and the timeliness of connections. There are separate service standards for the Adelaide metropolitan area and regional areas, to recognise the differences in response times in each area.

The performance targets for the SAWRD20 regulatory period have been set such that, in most cases, there will be no reduction in service levels (as compared to average historical levels). There are also a small number of performance targets that have been set with an expectation that SA Water will improve its service, on the basis that these areas were demonstrated as being important to customers.

Prompt and transparent reporting on performance is necessary for SA Water's customers and other stakeholders to have confidence that SA Water is identifying and responding to service issues in a timely manner.

The Commission is proposing to require SA Water to publicly report quarterly on its performance in meeting the annual service standards and provide annual performance self-assessments, supported by a system of verified trust and accountability around that reporting.

2.1 SA Water's performance self-assessments

SA Water currently publishes a 'performance scorecard' of key performance data on its website each quarter.⁵ The Commission also monitors SA Water's quarterly performance and issues an annual report with the supporting time series data.⁶ The Commission also has a Significant Performance Event reporting framework, to allow for more in-depth analysis of performance events, as needed.⁷

The SAWRD20 Final Determination included a final decision that SA Water would be required to publicly report each quarter on its performance against each of the service standards established under the Code, consistent with SA Water's commitment in its Regulatory Business Proposal (**RBP**).⁸ It noted that the final form of the reporting and monitoring should be developed by SA Water, in consultation with relevant stakeholders, to ensure that the information is meaningful and useful to those stakeholders.

Reporting on performance must be timely if it is going to be meaningful and helpful for customers and other stakeholders. The proposal is that SA Water should report on a quarterly basis, as soon as practicable after the end of a quarter (for example, one month). It is acknowledged that the requirement for quarterly performance 'snapshots' may mean that finalised data may not be available, and will need to be updated as part of the annual performance assessment. SA Water will be expected to clearly identify and explain the extent to which publicly reported data is based on a combination of actual and

⁴ Water Retail Code – Major Retailers (WRC-MR/03), Schedule 1, available at <https://www.escosa.sa.gov.au/industry/water/codes-and-guidelines/codes>.

⁵ SA Water performance scorecard, available at <https://www.sawater.com.au/about-us/our-vision-and-strategy/our-performance-scorecard>. Also accessible from the lower right-hand side of SA Water's home page, www.sawater.com.au.

⁶ SA Water operational performance reporting, available at <https://www.escosa.sa.gov.au/industry/water/regulatory-reporting/sa-water-operational-performance> and <https://www.escosa.sa.gov.au/industry/water/regulatory-reporting/regulatory-performance-reports>.

⁷ Significant Performance Event Reporting, available at <https://www.escosa.sa.gov.au/industry/water/regulatory-reporting/significant-performance-event-reporting-framework>.

⁸ SA Water, Regulatory Business Proposal, Our Plan 2020, p.13, available at <https://www.sawater.com.au/about-us/our-vision-and-strategy/our-plan-2020-24>.

forecast results at the time of publication. Any variations or updates to previously reported quarterly data will need to be identified and explained in end of year reporting.

Acknowledging the requirement for SA Water to consult with customers and other stakeholders on the form of this reporting, the Commission is proposing to require SA Water to publish its first quarterly reports in the third and fourth quarters of 2020-21 as a trial, with formal reporting commencing from the start of 2021-22.

The Commission is seeking feedback from stakeholders on these proposals, or any other matters relevant to SA Water's performance self-assessments.

Consultation questions:

- ▶ Is SA Water's current quarterly performance scorecard easy to locate on its website and does it provide a sufficient level of information on its performance? If not, what improvements are required?
- ▶ In what format should SA Water provide the underlying time series data previously reported by the Commission?⁹

2.2 Initial review of data collection, analysis and reporting systems

The SAWRD20 Final Determination noted the Commission's intention to continue to collect the underlying time series data to assist with verification of SA Water's performance self-assessments. It also noted that the Commission would assess and verify—initially and from time-to-time thereafter as required—the systems, processes and controls used by SA Water to generate its operational performance information (as described above).

The Commission is therefore proposing to undertake an initial review of SA Water's performance data collection, analysis and performance systems, prior to the SA Water self-assessment reporting trial commencing in quarter three of 2020-21. It intends to make the findings of that review publicly available.

In the future, in the event that the Commission is not satisfied that SA Water's public reporting fairly reflects its actual performance (short- and long-term), it may require SA Water to restate information or revise the systems, processes and controls which underpin its reporting. The Commission may resume its own reporting of SA Water performance data in the event that SA Water fails to satisfy either the Commission or stakeholders that it is doing so adequately.

In light of the above proposals, the Commission will cease its quarterly reporting of SA Water's performance data¹⁰ in favour of focussing on annual reporting of longer-term trends and systemic issues, while retaining the existing Significant Performance Event reporting framework to deal with relevant matters if they arise. As there will be a period before SA Water has finalised its enhanced public quarterly reporting, the Commission will continue to publish quarterly data for the rest of 2020.

Consultation question:

- ▶ Are there any issues that the Commission needs to consider with its proposed approach?

⁹ SA Water's historical time series data is available at <https://www.escosa.sa.gov.au/industry/water/regulatory-reporting/regulatory-performance-reports>.

¹⁰ A quarterly performance summary is available at <https://www.escosa.sa.gov.au/industry/water/regulatory-reporting/sa-water-operational-performance>.

3 Expenditure and revenue outcomes

SAWRD20 determined separate revenue caps for drinking water and sewerage retail services. Those revenue caps provide for the recovery of SA Water's efficient costs, including capital and operating expenditure, for the four-year regulatory period. The revenue caps have been set to promote SA Water's financial efficiency, viability and long-term sustainability in providing regulated services.

As part of the ongoing assurance process for SAWRD20, SA Water will be required to provide more detailed information that demonstrates how SA Water's projected drinking water and sewerage prices for the entire SAWRD20 period are expected to comply with the SAWRD20 revenue caps.

In the interests of public transparency and accountability, the Commission is proposing that a public summary statement also be prepared annually by SA Water, to be published on both the Commission's and SA Water's websites.

3.1 Annual financial performance reporting

The Commission currently monitors SA Water's annual financial performance and publishes an annual report summarising the key outcomes.¹¹

As with service standard performance data, the Commission is proposing to require SA Water to publicly report annual financial performance self-assessments, supported by a system of verified trust and accountability around that reporting. The annual reports, and supporting data, would be published as soon as practicable after the end of a year, as is currently the case for the reports provided to the Commission.

The final form of the public report should be developed by SA Water, in consultation with the Commission and other relevant stakeholders, to ensure that the information is meaningful and useful to those stakeholders.

However, the report for 2020-21 should include, as a minimum:

- ▶ performance against key financial metrics
- ▶ actual operating and capital expenditure (at an appropriately disaggregated level), and
- ▶ reasons for any material variations from the operating and capital expenditure forecasts used to set the revenue caps.

The Commission is proposing to undertake an initial review of SA Water's financial data collection, analysis and performance systems, prior to the SA Water self-assessment reporting trial commencing in quarter four of 2020-21. It intends to make the findings of this review publicly available.

The Commission will continue to monitor SA Water's actual expenditure, on an annual basis, and provide public reports on long-term trends.

Consultation question:

- ▶ Are there any issues that the Commission needs to consider with its proposed approach?

¹¹ SA Water operational performance reporting, available at <https://www.escosa.sa.gov.au/industry/water/regulatory-reporting/regulatory-performance-reports>.

3.2 Annual assurance statement

SA Water has provided the Commission with high-level information showing how the revenue caps under SAWRD20 have been translated into drinking water and sewerage prices from 1 July 2020.

As part of the ongoing assurance process for SAWRD20, SA Water will be required to provide more detailed information that demonstrates how SA Water's projected drinking water and sewerage prices for the entire SAWRD20 period are expected to comply with the SAWRD20 revenue caps.

This will require information about expected or anticipated pricing/tariff changes in future years of the regulatory period and expected demand and customers numbers that apply to each tariff category. It should show how those volumes/customer numbers, when applied to projected prices, would achieve revenues that do not exceed the SAWRD20 revenue caps.

In the interests of public transparency and accountability, the Commission considers it to be appropriate for each statement to also contain a public summary statement, which would be published on both the Commission's and SA Water's websites. Those statements should contain sufficient information (including aggregate revenue and related information) to provide assurance to customers and other stakeholders that SA Water has complied, and will continue to comply, with the regulatory revenue controls.

It is proposed that SA Water should have the responsibility for developing the detailed form for this public reporting, in consultation with the Commission and an appropriate cross-section of its key stakeholders. The Commission expects to see evidence of how this engagement has informed the final form of the public reports. The high-level format for the report for 2020-21 should be finalised by December 2020.

Consultation questions:

- ▶ Are there any issues that the Commission needs to consider with its proposed approach?
- ▶ Are there any groups of customers or other stakeholders that SA Water should include in the development of the format for the annual regulatory revenue controls report to ensure the information provided is accessible and inclusive?

3.3 End of SAWRD20 regulatory period assurance statement

In addition to the annual assurance statements, it is proposed that SA Water provided a compliance statement at the end of the SAWRD20 regulatory period.

The end of regulatory period compliance statement would need to demonstrate whether or not the revenues derived from the actual drinking water and sewerage prices, volumes and customer numbers during the period were at or within the revenue caps. It would need to include data for all years of the 2020-2024 regulatory period.

It is proposed that this compliance statement be made publicly available.

Consultation questions:

- ▶ Are there any issues that the Commission needs to consider with its proposed approach?

4 Key investment areas

The SAWRD20 Final Determination set an expectation that SA Water would be able to demonstrate a clearer 'line of sight' between service objectives, inputs, outputs and service outcomes in the future. It included a final decision that SA Water must provide public reports on its progress in achieving the outcomes it has committed to deliver in its final regulatory business plan, on an annual basis.

While, over time, SA Water should have this capability across the board, the Commission is proposing to initially focus on the three key investment areas identified in the SAWRD20 Final Determination:

- ▶ network reliability
- ▶ water quality improvements, and
- ▶ reducing overflows of sewage to the environment.

It is proposed that the responsibility for developing the detailed form for this public reporting will rest with SA Water and that the Commission will review, assess and comment on the information prepared and reported by SA Water. Where necessary, this information may also be subject to external review by subject matter experts.

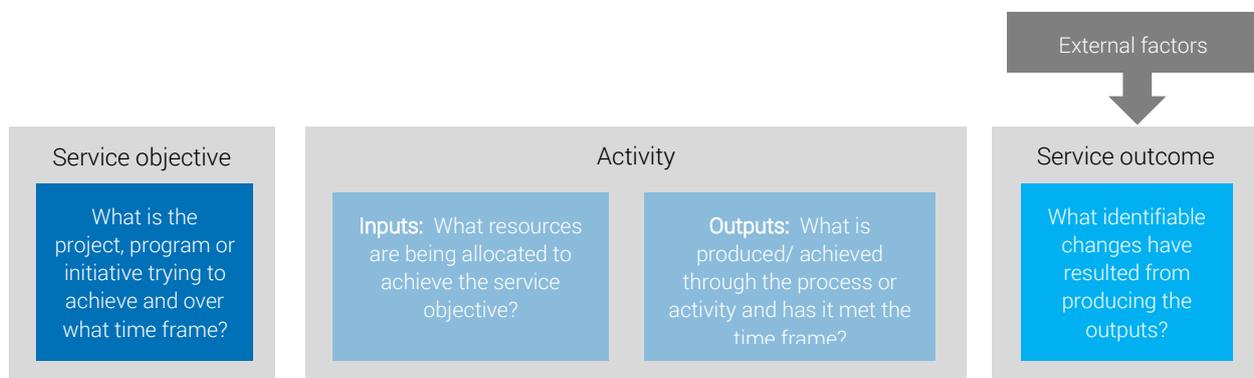
4.1 SA Water's investment performance reporting

SA Water's asset management system includes a 'line of sight' to track how it is achieving its corporate strategic objectives through its asset management activities.

SA Water currently collects an extensive amount of asset information across its operations and has an expressed ambition to continue to improve its understanding of the condition and performance of its assets over the SAWRD20 regulatory period. Continued improvements in this area will assist SA Water to better understand how its assets contribute towards achieving its service outcomes and make better investment decisions in the future.

The Commission is proposing to require SA Water to publicly report on its investments using an approach that clearly demonstrates the line of sight from the initial service objectives contained in project and program business cases through to actual measured and observable service outcomes (illustrated in Figure 4.1). This approach is intended to support SA Water's efforts to enhance its benefits realisation approach and build on the existing line-of-sight used in SA Water's asset management system.

Figure 4.1: Analysing a service process from objectives to outcomes



Initially, the Commission is proposing to focus on the three key investment areas identified in the SAWRD20 Final Determination:

- ▶ network reliability
- ▶ water quality improvements, and
- ▶ reducing overflows of sewage to the environment.

It is proposed that the responsibility for developing the detailed form for this public reporting, in consultation with an appropriate cross-section of its key stakeholders, will rest with SA Water. The Commission expects to see evidence of how this engagement has informed the final form of the public reports. The high-level format for the report for 2020-21 should be finalised by December 2020.

SA Water's internal business cases, plans, policies, procedures and approach documents, that supported its publicly-available Regulatory Business Proposal, included information on objectives, inputs and expected outputs and outcomes, to varying degrees of detail. This included the proposed timing for expenditure to be incurred and the outputs to be delivered for that expenditure.

The relevant information should be extracted from these documents and included in the public reporting templates, in a way that is accessible for a wide range of stakeholders. Commentary on performance against the supporting key performance indicators, and other measures and metrics, should also be included.

The forecasts for timing of expenditure and delivery of outputs included in the business cases will form the baseline for the Commission's future assessments, with SA Water responsible for identifying and explaining the reasons for any variations from this baseline.

A framework of this nature is able to evolve over time, with additional investment areas able to be added where there is value for stakeholders in doing so. If this model proves successful for reporting on progress in 2020-21, it will be scaled up to cover additional investment areas that are likely to be of interest to SA Water's customers and other stakeholders.

Consultation questions:

- ▶ Are the key investment areas selected by the Commission an appropriate starting point for the initial annual investment performance report in 2020-21?
- ▶ Are there any other key investment areas that should be included in the initial annual report?
- ▶ Are there any groups of customers or other stakeholders that SA Water should include in the development of the format for the annual investment performance report to ensure the information provided is accessible and inclusive?¹²

4.2 Annual review by the Commission

The Commission will review, assess and, as needed, report publicly on SA Water's investment performance reports.

Through reviewing, assessing and commenting on investment performance, the Commission will facilitate credibility (or otherwise) with customers and other stakeholders on SA Water's self-assessments of its performance. Where necessary, this information may also be subject to external review by subject matter experts.

¹² Note that feedback from stakeholders on this consultation question will be used to inform the development of the format for the annual investment performance report for 2021-22 onward.

Over time, the Commission will build better market intelligence on SA Water’s capability and capacity to deliver its existing investment program. This will allow for earlier identification of issues that need to be addressed during the regulatory period, as well as forming a view about any potential new investment program proposed through future regulatory determinations.

Consultation question:

- ▶ Are there any issues that the Commission needs to consider with its proposed approach?

5 Long-term asset management and investment planning

The SAWRD20 Final Determination set an expectation that SA Water would develop, and publicly report on, its longer-term asset management plans and expected expenditure profile, on a rolling annual basis.

It is proposed that the responsibility for developing the detailed form for this public reporting will rest with SA Water and that the Commission will review, assess and comment on the information prepared and reported by SA Water. Where necessary, this information may also be subject to external review by subject matter experts.

5.1 Annual updates on long-term asset management plans

As part of its RBP, SA Water included a high-level overview of its 30-year asset management plan.¹³ It included a snapshot of the projected 30-year expenditure profile for its water and sewerage assets, broken down by three key drivers of expenditure: enabling growth, asset renewal, and meeting external obligations. However, this high-level information was of limited value in assisting stakeholders to understand how the investment proposal for the SAWRD20 regulatory period fitted into SA Water's longer term investment needs.¹⁴

Through the SAWRD20 review process, stakeholders provided feedback that they wanted to see and understand the extent to which major expenditure and investment by SA Water over time was successful, in terms of both efficiency and effectiveness.

The lack of publicly available information on successful past performance, and the extent to which the expenditure proposed was necessary rather than discretionary, made it more difficult for stakeholders to comment on the appropriateness of some of the projects, programs and initiatives SA Water had proposed for the SAWRD20 regulatory period.

The SAWRD20 Final Determination suggested that through more transparent monitoring and reporting during the regulatory period, including reporting on long-term trends, there should be fewer surprises when SA Water submits its regulatory proposal for the SAWRD24 regulatory period. It will provide a greater understanding of how SA Water's four-year plan relates to historical performance and longer-term future plans.

The Commission is proposing to require SA Water to publicly report on its long-term asset management plans, on an annual basis. As with the key investment performance reports discussed in Chapter 3.3, it is proposed that SA Water should have the responsibility for developing the detailed form for this public reporting, in consultation with an appropriate cross-section of its key stakeholders. The Commission expects to see evidence of how this engagement has informed the final form of the public reports. The high-level format for the report for 2020-21 should be finalised by December 2020.

¹³ Available at https://www.sawater.com.au/_data/assets/pdf_file/0014/420080/2_SAW_Our-Plan-2020-24_Appendix-O_2.1.pdf.

¹⁴ In the SAWRD20 Final Determination, the Commission identified four broad issues with SA Water's asset management system, and noted 'A high-level understanding of long-term expenditure requirements should be both knowable and known in a long-term asset management business such as SA Water, and should be transparently available to stakeholders on a regular basis.' SA Water Regulatory Determination 2020, Final Determination, June 2020, p. 119. Available at: <https://www.escosa.sa.gov.au/projects-and-publications/projects/water/sa-water-regulatory-determination-2020>.

Consultation questions:

- ▶ How valuable was the information provided in SA Water’s high-level overview of its 30-year asset management plan? What information was missing?
- ▶ Are there any groups of customers or other stakeholders that SA Water should include in the development of the format for the annual update on its long-term asset management plan to ensure the information provided is accessible and inclusive?

5.2 Greater transparency around reprioritising investments during the SAWRD20 regulatory period

While acknowledging that the Regulatory Determination process is forward-looking, stakeholders also sought assurance that, where significant projects do not proceed as originally proposed in the RBP (for example, through reprioritisation), there is a public and transparent process surrounding those events.

Such a process should provide for an explanation (by SA Water) of the reasons for the change, what new work is being done for the money paid by consumers (outputs) and give indicators of success for the intended (and actual) outcomes of that new work. It should also include provision for stakeholders and the Commission to review and comment on relevant issues—both prior to any work being done and in the planning stages.

The increased transparency provided through the proposed reporting framework is a first step in this wider process. These additional enhancements will need to be developed, by SA Water and in consultation with its customers and other stakeholders, as part of the process for developing the regulatory business proposal for SAWRD24.

6 Next steps

The Commission welcomes feedback on the proposals set out in this paper. Submissions should be provided by close of business, **Friday, 6 November 2020**. Matters raised by stakeholders will be considered before the final framework is published in December 2020.

Concurrent to the finalisation of the framework, the Commission will undertake an initial review of SA Water's performance data collection, analysis and performance systems, prior to the SA Water self-assessment reporting trial commencing in quarter three of 2020-21. The Commission will make the findings of that review publicly available.

SA Water has already started consulting with stakeholders on some of the requirements set out in this paper, although additional testing is likely to be required before the self-assessment reporting trial starts in quarter three of 2020-21.

The next tranche of reporting requirements will be developed, in consultation with SA Water and stakeholders, following the assessment of the first set of annual reports in the second half of 2021.



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