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SA Water Regulatory Determination 2020: Monitoring and evaluating performance

Implementing the final decisions

January 2021

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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 explain the Commission's approach to implementing the monitoring evaluation and reporting framework set out in the SA Water Regulatory Determination 2020 Final Determination.

The positions set out in this paper have been informed by stakeholder feedback on the proposed framework, released in October 2020. Submissions were broadly supportive of the Commission's proposed framework and the increased transparency it would introduce. The Commission acknowledges the calls from stakeholders to expand reporting even further, and confirms its expectation that SA Water will be publicly reporting on all programs, projects and initiatives by the end of the SAWRD20 period.

However, the Commission also acknowledges that to make this type of information relevant and accessible, (and not unnecessarily technical or inwardly focused), refinement through several iterations of reports is likely to be required. The Commission expects SA Water to 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.

SA Water will need to continue to engage with stakeholders as it develops its public reports during the initial trial period in 2021. The Commission expects to see evidence of how SA Water has responded to the issues raised by stakeholders in developing its public reporting approach.

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 monitoring and evaluation framework set out in this paper was foreshadowed in the SAWRD20 Final Determination. The framework aims to introduce more transparency into SA Water's ongoing investment planning and evaluation processes, to 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 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 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.

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>.

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 framework will focus on four areas:

- ▶ service standards with performance targets (an existing requirement)
- ▶ expenditure and revenue outcomes (an existing requirement)
- ▶ key investment areas (an enhancement), and
- ▶ long-term asset management and planning (an 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.

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**))² 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

² 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 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 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 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 (an enhancement), and
- ▶ Chapter 5 – long-term asset management and planning (an 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.

1.6 Consultation to refine the final requirements

The Commission released a consultation paper in October 2020 setting out the proposed framework and invited feedback by early November 2020.³

Four submissions were received, from:

- ▶ Business SA⁴

³ Refer <https://www.escosa.sa.gov.au/projects-and-publications/projects/water/sa-water-regulatory-determination-2020-monitoring-and-evaluating-performance/monitoring-evaluating-performance>

⁴ Business SA submission, <https://www.escosa.sa.gov.au/ArticleDocuments/21598/20201221-Water-SAWRD20-24-MonitoringEvaluationFrameworkSubmission-BusinessSA.pdf.aspx?Embed=Y>.

- ▶ Heather Smith⁵
- ▶ SA Water⁶, and
- ▶ South Australian Council for Social Service (**SACOSS**)⁷.

The Commission also hosted a session with its Consumer Advisory Committee during the consultation period. The key reflections from members were as follows:

- ▶ There was member consensus on the value of introducing greater transparency on SA Water's future investment needs/drivers much earlier in the investment planning cycle. Stakeholders need to know what the future challenges and opportunities are early enough to have meaningful discussions about them before SA Water designs preferred solutions. The proposed reporting framework contributes towards that goal, but is not the only means of achieving it.
- ▶ SA Water has considerable flexibility in how it delivers on its regulatory business proposal over the next four years. Members consider that there must be appropriate transparency around, and checking and reporting on, the many smaller implementation and delivery decisions that are made to provide confidence that it has good decision-making processes in this part of the cycle. Further consideration is needed on how to appropriately involve customers (and other stakeholders) in these ongoing discussions and decision-making processes.
- ▶ The Commission's framework should focus on how SA Water is considering, monitoring and tracking how its activities and decisions deliver outcomes for consumers; the technical inputs and outputs must be linked to actual, real world outcomes. Members would also like to see more evidence of how SA Water is responding to the day-to-day needs of customers.
- ▶ SA Water should be doing more to work with the community, and community representatives, to better understand their perspectives on matters that need to be considered and addressed.
- ▶ More thought needs to be given to the audiences for the different types of reporting; different audiences have different needs and there is an expectation that SA Water should understand this and be more proactive and engaging in its approaches. Members also want to see a particular focus on the outcomes being achieved for rural and regional communities, noting that different communities will also have different needs and expectations.

The written submissions provided broad support for the overall approach, although the majority of respondents wanted to see an even greater level of transparency from SA Water. Responses to the specific suggestions on the elements of the framework are discussed in the relevant areas below.

Heather Smith's submission expressed support for the Commission's efforts to monitor and evaluate SA Water's performance through greater transparency and provision of key metrics, but primarily focused on opportunities to strengthen the role of the community in the regulatory review process:

In my opinion, public transparency of performance, targets and outcomes is the best way to ensure that SA Water's key decisions and long term investments act in the best interests of the South Australians. I also encourage SA Water to become an organisation that listens well to its staff, customers and stakeholders so that it can better understand and manage the challenges

⁵ Heather Smith submission, <https://www.escosa.sa.gov.au/ArticleDocuments/21598/20201221-Water-SAWRD20-24-MonitoringEvaluationFrameworkSubmission-PrivateIndividual.pdf.aspx?Embed=Y>. While Heather represents the Conservation Council of SA on the Commission's Consumer Advisory Committee, she expressly requested that it be made clear that the views provided in her submission were her own.

⁶ SA Water submission, <https://www.escosa.sa.gov.au/ArticleDocuments/21598/20201221-Water-SAWRD20-24-MonitoringEvaluationFrameworkSubmission-SAWater.pdf.aspx?Embed=Y>.

⁷ SACOSS submission, <https://www.escosa.sa.gov.au/ArticleDocuments/21598/20201221-Water-SAWRD20-24-MonitoringEvaluationFrameworkSubmission-SACOSS.pdf.aspx?Embed=Y>

ahead. Climate change, social demands and innovation all create changing context for the organization and South Australians will be best served by an organisation that responds to such challenges together with its customers.⁸

SA Water's submission demonstrated a commitment to making the improvements sought by stakeholders:

We are aligned with the Commission's objective to further strengthen public performance reporting to highlight the deliverables for the regulatory period and the role of our long term planning activities, to build the capacity of our customers to engage with us on business planning decisions. We therefore welcome the Commission's observations about the customer's and the community's appetite for accessible and easy to digest information.

We also support the trialling of self-reporting performance outcomes for 2020-21 and anticipate that this arrangement will prove effective and will be able to continue for the remainder to the regulatory period.⁹

The examples of proposed reporting provided in SA Water's submission are a positive step forward, although further alignment with stakeholder expectations is likely to be required. The trial period will provide SA Water with the opportunity to invite additional feedback to refine its approach to public reporting over the SAWRD20 period.

⁸ Heather Smith submission, p.1.

⁹ SA Water submission, p. 1.

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.¹⁰

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 will 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.¹¹ The Commission also monitors SA Water's quarterly performance and issues an annual report with the supporting time series data.¹² The Commission also has a Significant Performance Event reporting framework, to allow for more in-depth analysis of performance events, as needed.¹³

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**).¹⁴ 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.

Feedback was sought on whether SA Water's current quarterly performance scorecard was easy to locate on its website and if it provided a sufficient level of information on its performance. Stakeholders

¹⁰ Water Retail Code – Major Retailers (WRC-MR/03), Schedule 1, available at <https://www.escosa.sa.gov.au/industry/water/codes-and-guidelines/codes>.

¹¹ 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.

¹² 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>.

¹³ Significant Performance Event Reporting, available at <https://www.escosa.sa.gov.au/industry/water/regulatory-reporting/significant-performance-event-reporting-framework>.

¹⁴ 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>.

were also asked to comment on the format in which SA Water should provide the underlying time series data, using the format previously reported by the Commission¹⁵ as a starting point.

2.1.1 Summary of submissions

Reflecting on the format of SA Water's current performance scorecard, SACOSS recommended that further detail was needed to explain each service standard and performance target to make the performance data presented more meaningful for stakeholders.¹⁶

SACOSS expressed concern that the proposed quarterly reporting requirements did not capture the financial hardship measures currently reported to the Commission, stating that it was vital for stakeholders to have visibility of these indicators of financial stress experienced by SA Water's customers. It also suggested that additional hardship indicators needed to be reported on by SA Water, as a means of identifying customers who were not participating in the formal hardship program that may nonetheless be struggling to pay their bills.¹⁷

SA Water supported the idea of trialling self-reporting in 2021, indicating its intention to strengthen its current public performance reporting, using its recently released business strategy as its key frame of reference, with plans to share performance outcomes with customers through various social media channels.¹⁸ It also committed to enhancing the content of its current performance scorecards by including commentary to explain any variance from performance targets.

2.1.2 Final requirements

Reporting on performance must be timely if it is going to be meaningful and helpful for customers and other stakeholders. SA Water will be required to 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 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.

To alleviate SACOSS' concern that quarterly reporting on financial hardship indicators may be lost in this transition, the Commission confirms that it also expects SA Water to report on these measures as part of its quarterly reports.

The Commission notes that SA Water has stated its intention to report on the total number of residential customers participating in a financial hardship program as at the end of the quarter under the banner of '*supporting you when you need a hand*'.¹⁹ However, this lone indicator will not provide stakeholders with an understanding of any changing trends in the levels of customer debt over time, which is an important part of the wider context. While the Commission is not proposing to extend the coverage of the current set of financial hardship indicators for 2021-22, there is likely to be benefit from SA Water working with stakeholders to further refine its reporting in this area during the trial period.

While SA Water advised that it had engaged with its Customer Advisory Groups to develop its proposed reporting approach, further consultation will be needed to test and respond to customer and other feedback over the trial period in the third and fourth quarters of 2020-21. Formal quarterly reporting by

¹⁵ SA Water's historical time series data is available at <https://www.escosa.sa.gov.au/industry/water/regulatory-reporting/regulatory-performance-reports>.

¹⁶ SACOSS submission, p. 3.

¹⁷ SACOSS submission, pp. 3-4.

¹⁸ SA Water submission, pp. 1-2 and appendix for more details.

¹⁹ SA Water submission, appendix p. 3.

SA Water will commence from the start of 2021-22. The Commission's current reporting guidelines will be updated in early 2022 to reflect any necessary changes to SA Water's obligations after the trial reports have been refined.

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 will undertake an initial review of SA Water's performance data collection, analysis and performance systems, during SA Water's self-assessment reporting trial. As an initial step in this process, SA Water has commenced an internal audit of its systems, processes and controls. The Commission will review the findings of that audit to determine if further work is required. The findings of this review process will be made 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.

The Commission will cease its quarterly reporting of SA Water's performance data²⁰ 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, from 2021-22.

²⁰ 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 and quantities for the entire SAWRD20 period are expected to comply with the SAWRD20 revenue caps.

In the interests of public transparency and accountability, the Commission will require a public summary statement to 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.²¹

As with service standard performance data, the Commission will 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, will be published as soon as practicable after the end of a year, as is currently the case for the reports provided to the Commission.

3.1.1 Summary of submissions

SA Water highlighted that a certain degree of assurance over financial information is already in place, as there are quality controls in the production of its regulatory accounts. As a general matter, it noted that any approach to financial reporting should balance the needs and cost of that particular reporting, and should consider the confidentiality of information.²²

3.1.2 Final requirements

The type of financial information to be reported is readily available to SA Water, and would commonly be available in a commercial setting. Accordingly, the Commission considers that there would be limited additional regulatory or administrative costs from producing the proposed public reports. The form and frequency of these required public reports is key to informing stakeholders and facilitating greater accountability of SA Water.

The final form of the public report will need to be developed by SA Water during the first half of 2021, in consultation with the Commission and other relevant stakeholders, to ensure that the information is meaningful and useful to those stakeholders. It is in this stage that potential confidentiality issues, as highlighted by SA Water, can be considered. But any claims of confidentiality must be clearly identified and justified with evidence.

While not being prescriptive about the format of this report, the report for 2020-21 should include, as a minimum:

²¹ SA Water operational performance reporting, available at <https://www.escosa.sa.gov.au/industry/water/regulatory-reporting/regulatory-performance-reports>.

²² SA Water submission, p. 3.

- ▶ 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 will undertake an initial review of SA Water's financial data collection, analysis and performance systems, as part of the SA Water self-assessment reporting trial. SA Water has not currently proposed an internal audit of this area, so the Commission will lead this process. 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.

3.2 Annual assurance statement

3.2.1 Final requirements

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 on an annual basis 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 annual 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.

The information to be reported in these public summary statements (such as expected or anticipated pricing/tariff changes in future years of the regulatory period and expected demand and customer numbers that apply to each tariff category) should be readily available to SA Water as part of its planning and budgeting processes. It is worth noting that it is not uncommon for private businesses to signal to customers and investors their general expectations for future revenues and earnings (for example, in annual or semi-annual investor relations presentations).

SA Water will 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 March 2021.

The data presented in the public summary statements will be aggregated to show, for example, expected pricing and demand changes by tariff in future years of the regulatory period. This level of aggregation would address SA Water's concerns about potential confidentiality issues. The form of the annual public assurance summary statement should be accessible and understood by stakeholders (for example, by clearly stepping through any relationships between price and volume components).

3.3 End of SAWRD20 regulatory period assurance statement

3.3.1 Final requirements

SA Water will be required to provide a public regulatory assurance statement to cover the entire SAWRD20 regulatory period (ie once final reconciled data are available). This assurance statement will be produced in a format for the public and will be in addition to the compliance statement provided to the Commission in April 2024, to be used as part of the regulatory determination process for SAWRD24.²³

The end of regulatory period compliance statement will 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 will also need to include data for all years of the 2020-2024 regulatory period. The form of the assurance statement should be accessible and understood by stakeholders (for example, a non-technical fact sheet).

²³ Required under clauses 2.5 and 2.9 of the SA Water Regulatory Determination 2020: Price determination, available at: <https://www.escosa.sa.gov.au/ArticleDocuments/21489/20200611-Water-SAWRD20-FinalPriceDetermination.pdf.aspx?Embed=Y>

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 will 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.

The responsibility for developing the detailed form for this public reporting will rest with SA Water and 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.

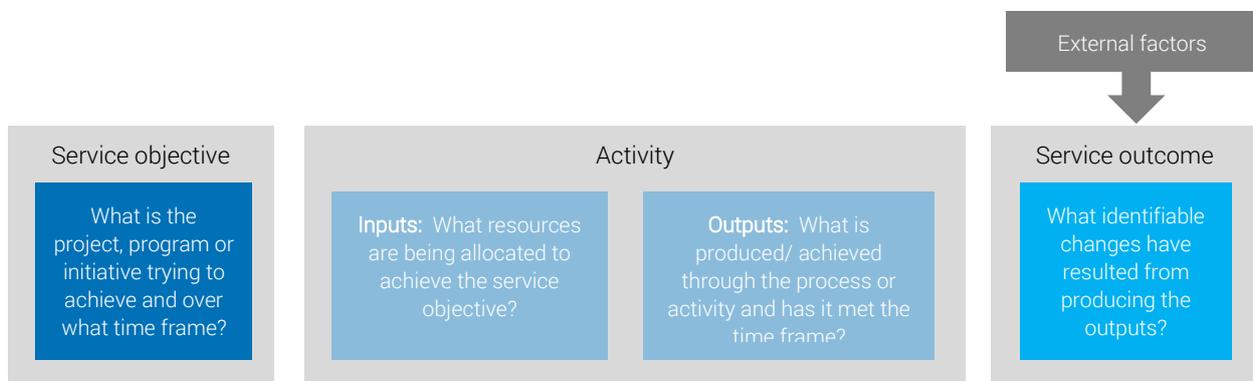
4.1 SA Water’s investment performance reporting

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 will 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



4.1.1 Summary of submissions

Business SA stressed the importance of robustly and transparently tracking and reporting on investments intended to improve services, particularly where SA Water relied heavily on customer research to support those investments:

In relation to the 2020-24 SA Water regulatory business proposal, one of the most surprising aspects was the inclusion of a \$126m metropolitan water quality improvement project. The evidence to justify this project had not been communicated to SA Water's Business Customer Panel and subsequently, Business SA objected to its inclusion in ESCOSA's final determination. We also raised concerns about the extent to which SA Water had relied upon discrete choice customer surveys to justify this and other projects, particularly when not all phases of the consumer survey research had been communicated via the Business Customer Panel including that which justified the metropolitan water quality improvement project.

Now that ESCOSA has approved a range of projects SA Water justified upon the basis of consumer research, it is critical that associated outcomes communicated through those surveys to validate consumer's 'willingness to pay' are closely tracked throughout the 2020-24 regulatory period. For example, where improvements to water quality or sewerage overflows were justified based on consumer preferences (even if partly), there should be a robust way of tracking the actual outcomes of budgeted capital investments. At present, there is no performance standard applied to SA Water specifically related to an objective measure of water quality, or sewerage overflows to the environment.²⁴

Business SA also suggested that greater transparency was required around IT expenditure and the impact of the Zero Cost Energy Future initiative.

SACOSS was supportive of the increased transparency proposed, but wanted to see SA Water publicly report on its progress towards achieving all of the outcomes committed to for the SAWRD20 period.²⁵ This included an expectation that SA Water would publicly report on the requirements contained in the direction issued by the Minister for Water and the River Murray:

SACOSS is also particularly keen to ensure the expenditure proposals included in RD20 as a result of the Ministerial Direction fall within the proposed key investment areas, and are publicly reported on by SA Water. The operational and capital expenditure SA Water has been directed to fund for the projects identified in the Ministerial Direction have not undergone the independent economic scrutiny required by the Essential Services Commission Act. Consumers need to be confident the expenditure for these projects is prudent, efficient and in consumer's long-term interests.²⁶

Business SA also wanted to see clear monitoring and reporting on the achievement of the outcomes contained in the Ministerial Directions.²⁷

SA Water acknowledged that its customers would value information on its progress against delivering key investments and on the outcomes these investments deliver for customers. It included a summary of the key performance metrics it was intending to report against as part of its submission, but it was unclear from this information how extensive the narrative accompanying these data would be.²⁸

²⁴ Business SA submission, pp. 1-2.

²⁵ SACOSS submission, pp. 4-5.

²⁶ SACOSS submission, pp.5-6.

²⁷ Business SA submission, p. 2.

²⁸ SA Water submission, p. 2 and appendix 1.

4.1.2 Final requirements

The Commission acknowledges the calls from stakeholders to require SA Water to report on additional investment areas and confirms its expectation that SA Water will be publicly reporting on all programs, projects and initiatives by the end of the SAWRD20 period.

However, the Commission also acknowledges that to make this type of information relevant and accessible (and not unnecessarily technical or inwardly focused) refinement through several iterations of reports is likely to be required. To allow SA Water to meaningfully engage with stakeholders on these reports, the Commission will maintain the initial focus for 2020-21 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.

The Commission expects to see evidence of how this engagement has informed the final form of the public reports for 2020-21. It also expects SA Water to constructively engage with stakeholders to further refine its annual reports for 2021-22.

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, updated to reflect any of the changes SA Water has made as a result of the requirements of the SAWRD20 Final Determination, 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, transparently updated as necessary to reflect the requirements of the SAWRD20 Final Determination, 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.

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.

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.

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.

The responsibility for developing the detailed form for this public reporting will rest with SA Water and 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.²⁹ 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.³⁰

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.

5.1.1 Summary of submissions

SA Water submitted that it intended to meet this expectation by reporting against key measures and metrics aligned with its recently published business strategy. It noted that the supporting plans to deliver on the strategy would now need to be updated, and that it intended to publish some of its key long-term plans following this exercise.³¹

²⁹ Available at https://www.sawater.com.au/_data/assets/pdf_file/0014/420080/2_SAW_Our-Plan-2020-24_Appendix-O_2.1.pdf.

³⁰ 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>.

³¹ SA Water submission, pp. 2-3.

On the matter of frequency of publication of these reports, SA Water expressed its views as follows:

Noting that our long-term plans will continue to evolve, as customer values or expectations change, we propose that these plans are publicly released as and when they are updated, not necessarily annually as proposed in the draft framework. This will more closely align with the opportunity for customers to be informed and influence our plans. This is likely to be in line with the regulatory determination process and would give customers and other stakeholders the opportunity to review and input into our proposals for the coming regulatory period.³²

Business SA also questioned whether annual reporting in this area was appropriate, or if biennial reporting was likely to be sufficient to meet stakeholders' needs:

Business SA supports ESCOSA's suggestion that SA Water regularly report on long-term asset plans, although this should only be required on a biennial as opposed to an annual basis. We are not of the view that customers need to see this type of information updated annually, but likewise every four years is likely to leave us in a similar situation to the status quo where we are surprised with decisions which should be evident through a better understanding of SA Water's long-term investment plans.³³

5.1.2 Final requirements

SA Water's submission interpreted this expectation as being able to be fulfilled through reporting on key measures and metrics aligned to the elements of its recently developed business strategy. While this reporting is likely to be of value to its customers and other stakeholders, the Commission's proposal in this area was focused on a different aspect of SA Water's operations.

As an asset-intensive long-term business, SA Water must have a long-term picture of the condition, performance, and investment profile for its entire asset stock. This understanding will change over time, as its operating environment changes, and as it gains a better understanding of the optimal ways for it to sustainably manage its assets to deliver the services its customers, community and owner expect. However, at any point in time, SA Water will be working from a series of assumptions about how it will meet its current and future requirements. These assumptions will inform the expected shape of its future investment profile. It is this information that the Commission expects SA Water to share with stakeholders.

The Commission will 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 4, SA Water will 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 March 2021.

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

³² SA Water submission p. 3.

³³ Business SA submission, p. 2.

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 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 will undertake an initial review of SA Water's data collection, analysis and performance systems, as part of the SA Water self-assessment reporting trial, which will commence in quarter three of 2020-21. The Commission will make the findings of that review publicly available.

While SA Water has already started consulting with stakeholders on some of the requirements set out in this paper, additional testing will be required throughout the self-assessment reporting trial.

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.

The Commission's current reporting guidelines will be updated in early 2022 to reflect any necessary changes to SA Water's obligations after the trial reports have been refined.



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