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SA Water Regulatory Determination 2024: Guidance paper 2

Engaging with stakeholders to develop the Regulatory Business Plan

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Related reading

This Guidance Paper should be read in conjunction with the Framework and Approach paper and any other Guidance Papers released by the Commission for SA Water Regulatory Determination 2024. Those papers and other relevant information are available on the Commission's website:

<https://www.escosa.sa.gov.au/projects-and-publications/projects/water/sa-water-regulatory-determination-2024-framework-and-approach/sawrd2024>

Timing for this review and upcoming consultation opportunities

While the Commission remains responsible for making the final regulatory determination, the review process will involve multiple opportunities for stakeholders to be involved prior to that final determination.

Input from a diverse range of stakeholders is important, as it helps the Commission to make better informed and more inclusive decisions. The Commission will therefore draw on the full range of evidence provided by all stakeholders in making the final determination.

1 Purpose

This Guidance Paper sets out the Commission's expectations for how SA Water will engage with stakeholders to develop its Regulatory Business Plan for SA Water Regulatory Determination 2024.

The Commission will make a new regulatory determination to apply to the water and sewerage retail services provided by the South Australian Water Corporation (**SA Water**) from 1 July 2024 to 30 June 2028: SA Water Regulatory Determination 2024 (**SAWRD24**). The regulatory determination will set the maximum revenues that SA Water can earn from its customers over that four-year period, and the service standards it must deliver for its customers.

The SAWRD24 Framework and Approach¹ sets out the key timing, process and governance matters, for the regulatory determination process, which challenges SA Water to:

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

A key element of the regulatory determination process is the development of a Regulatory Business Plan by SA Water, which details its proposed expenditures and service outcomes for the four-year regulatory period. A Guidance Paper setting out the Commission's expectations for SA Water's Regulatory Business Plan was released in December 2021.²

SA Water is expected to demonstrate, with robust evidence in the Regulatory Business Plan, that:

- ▶ it has engaged in a meaningful and substantial way with an appropriately diverse range of stakeholders
- ▶ it has used an appropriately diverse range of channels and methods to engage with stakeholders, and
- ▶ stakeholder views and feedback have been carefully considered and incorporated into project design and prioritisation.

This Guidance Paper expands on the Commission's high-level expectations in each of these areas. Feedback from stakeholders on any of these matters is welcome.

1.1 Who are the stakeholders?

In this context, a stakeholder can be defined as a person or organisation who is involved in or receives services from a business, and has an interest in its success. In the case of a monopoly government-owned utility such as SA Water, stakeholders include:

- ▶ Customers (who pay for a service) and their representatives
- ▶ Consumers (who use a service, a broader group than customers) and their representatives
- ▶ State Government (as the owner of the business on behalf of the community)
- ▶ the South Australian community (as owners, customers, consumers, organisations, and as members of the public impacted by SA Water's activities and decisions)

¹ Framework and Approach available: [SAWRD24-FrameworkAndApproach-Final](#)

² SA Water RD24 Guidance Paper 1: The Regulatory Business Plan available: [SAWRD24-GuidancePaper1](#)

Best practice stakeholder engagement involves identifying stakeholders, and planning their participation based on objectives, timeframes, and stakeholder levels of concern and interest in the decision to be made. The IAP2 Spectrum of Public Participation³ sets out a simple best practice framework for defining the public's role in any form of stakeholder engagement. SA Water already uses this framework for its engagement activities so it should provide a good basis to assess the effectiveness of the design and delivery of the SAWRD24 specific engagement program.

1.2 Nature of stakeholder engagement

As set out in the Framework and Approach, the Commission expects to see that:

stakeholders are consistently and appropriately being involved in discussions about investment needs and planning, investment prioritisation and service delivery approaches—in both a long-term sense and in the context of each four-year regulatory determination period

and

*[SA Water] monitors, evaluates and is open and transparent with its customers and other stakeholders about its current performance, emerging service delivery issues, and possible future investment requirements.*⁴

The Commission expects SA Water to engage with stakeholders in the preparation of its Regulatory Business Plan. Stakeholder engagement should be early, meaningful, transparent, and collaborative and there should be significant evidence of how it has informed the Regulatory Business Plan.

SA Water should seek to involve stakeholders in questions about *why* the issue should be addressed in the SAWRD24 regulatory period (and how the issue or opportunity relates to long-term plans and service delivery), *what* options are available to deliver the outcome sought, *why* the preferred option has been chosen, and *how* the work will be delivered to provide a good customer experience.

Working with stakeholders to refine the expenditure included in the Regulatory Business Plan should be an iterative process. SA Water will need to explain its early thinking on issues, seek to understand stakeholder perspectives, and then adjust its plans in response to that feedback. Early discussions about *why* something needs to be done will be linked to *what* the options are to deliver the outcome sought. In turn, these discussions will help to refine what is necessary and feasible in the SAWRD24 regulatory period versus issues requiring a longer-term solution to be developed.

2 Obtaining diverse perspectives as early as possible

SA Water must be able to demonstrate that it has involved the right mix of stakeholders as early as possible in the decision making process. The relevant stakeholders will be different for different issues; evidence should be provided on how the relevant stakeholders were identified and engaged.

The Commission expects SA Water to engage with a wide range of stakeholders as it prepares its Regulatory Business Plan.

SA Water should be thinking about when and how it can include external stakeholders in its internal decision making processes as early as possible. Communication, consultation, and collaboration with stakeholders as early as possible in the planning process will allow SA Water to test its assumptions, gain wider perspectives and shape its plans. These wider perspectives are especially important when expenditure decisions made in one four-year regulatory period have implications for expenditure and

³ IAP2 Spectrum of Public Participation available: <https://iap2.org.au/resources/spectrum/>

⁴ Framework and Approach, p. 5

customer outcomes for several decades. However, it is equally important for SA Water to be challenged on how all of its proposed expenditures are relevant, prudent, and efficient.

SA Water's Regulatory Business Plan must evidence how expenditure proposals have been thoroughly tested with a broad range of stakeholders, including, but not limited to, the Customer Challenge Group.

As required by the Framework and Approach⁵, the Customer Challenge Group will play a critical role in assisting SA Water to develop its Regulatory Business Plan. As stated in the group's terms of reference:

The CCG will have a whole of business strategic focus and discuss, debate, and challenge the investment requirements and prioritisation for the regulatory period. Discussions will not be limited to testing and understanding things which SA Water believes to be discretionary or customer led. The CCG will discuss and debate all aspects of the investment package being proposed, to test SA Water's basis for the needs and timing for investments that are considered necessary to maintain services or uphold safety and compliance requirements.

The CCG will be invited to provide an external customer-focused perspective on any key research to be undertaken, which may include discussing and testing SA Water's proposed research methodologies. The CCG is not intended to replace the need for SA Water to use other methods to engage with its customers, or the wider community.⁶

While SA Water will invest a significant amount of time and effort with the Customer Challenge Group, it is also important to engage with other stakeholders. For example, the members of the Commission's Consumer Advisory Committee⁷ and SA Water's Customer Advisory Group⁸ bring a wealth of collective knowledge, experience and historical context to discussions. They have experience with regulatory review processes across multiple industries over a long period of time. They are able to share what other regulated businesses are doing and provide examples of best practice for SA Water, and the Commission, to consider.

There are also likely to be issues that will directly impact members of the community or specific communities. SA Water should seek to engage with affected communities as early as possible. This should cover both the need for the expenditure and the options for delivering the service outcomes being sought, and be guided by the IAP2 Spectrum of Public Participation.

Stakeholders will have different views and opinions, and this is part of the value of engagement. The Commission does not expect SA Water to facilitate agreement between all participants, as that would be unrealistic, and could lead to a 'least objectionable' proposal that may not be prudent, efficient, or in the best interests of customers as a whole. Rather, the Commission expects SA Water to demonstrate that it has sought, heard, and considered a diverse range of stakeholder views, and that these views have helped to shape SA Water's proposals.

3 Diversity of methods of engagement

SA Water must be able to demonstrate that it has sought to genuinely work with its diverse stakeholders using the methods and channels that maximise stakeholder opportunities to contribute on the issues that matter most to them.

Given the diversity of SA Water's stakeholders, a mixture of methods and channels is essential for genuine and meaningful engagement. Many options are available to understand the views of customers, the community, and stakeholders generally. A mixture of small group meetings, one-on-one

⁵ Ibid, p. 12

⁶ SA Water Customer Challenge Group Terms of Reference, October 2021, available: [Terms of reference](#)

⁷ Details on the Commission's Consumer Advisory Committee are available at <https://www.escosa.sa.gov.au/regulatory-approach/consumer-advisory-committee>

⁸ There is some common membership between the Commission's Consumer Advisory Committee and SA Water's Customer Advisory Committee.

discussions, group workshops, deliberative forums, and various types of customer surveys have all been used in the past, and are likely to be required.

It is up to SA Water to work with its various stakeholders to understand how they want to be involved and the most appropriate methods to maximise participation and engagement.

Some stakeholders may only care about a particular issue, and so will have limited involvement in the process. Other stakeholders may just want to be able to see what is going on rather than directly putting forward their views. The Commission does not expect SA Water to engage with all stakeholders on all issues; it expects to see evidence that SA Water has sought to work with stakeholders to give them the best opportunities to contribute on the issues that matter most to them.

4 Evidence that stakeholder views are incorporated in the Regulatory Business Plan

Stakeholder engagement outcomes should be an input into all proposed expenditures in the Regulatory Business Plan. The Commission expects to see evidence of how SA Water has used these inputs to shape its final proposals.

Ultimately, the outputs from SA Water's various stakeholder engagement and research activities need to feed into a wider cost-benefit analysis and prioritisation task.

There are multiple economic evaluation methods that can be used to seek to quantify the value that customers put on a particular service outcome. Willingness to pay studies have been used widely in regulatory economics, although there are some limitations with this approach for the nature of the proposed expenditure. Drinking water and sewerage services are not offered to customers at different levels of service depending on the value they place on those services; customers are offered one level of service at their premises. Customers are also limited in their ability not to use these services; there are only limited circumstances in which they can choose from alternatives or supply their own services. And, from a cost perspective, the services provided by SA Water are paid for by all customers, regardless of the variation in costs to provide those services across the state. Equally, the framing of willingness to pay studies must ensure that customers are aware of the alternatives to the proposal they are being asked to pay for, including doing nothing.

While the Commission considers that quantitative survey-based customer research can be useful, including through direct contact with a large number of customers, it can have limitations, such as being challenging to design and implement in a way that delivers meaningful and useful results. SA Water's expenditure decisions require broad, deep, and nuanced conversations with customers about the services that should be provided for all customers, (or in some instances, a sub-set of customers), that will be paid for by all customers.

The information collected through customer valuation tools is only used to help inform the cost-benefit equation. Additional financial and economic analysis is required to understand the costs and benefits of particular expenditure proposals, and this is the primary role of the Commission.

The Commission expects SA Water to demonstrate how it has obtained broad and deep stakeholder inputs, used them to meaningfully inform its analysis, and how the resulting expenditure proposals in the Regulatory Business Plan align with the long-term interests and views of its stakeholders, in particular, customers, consumers and the wider community.

Stakeholders will have differences of opinion. SA Water does not need to agree with all of the feedback it is provided, but its Regulatory Business Plan should clearly and transparently explain how it has weighed the various views to arrive at its final positions.

In assessing whether the engagement program has been meaningful and effective, the Commission will consider whether there are clear and transparent links between what SA Water heard from stakeholders and how its Regulatory Business Plan incorporates this feedback. The Commission will seek direct feedback from stakeholders on their satisfaction with the engagement opportunities provided by SA Water, and whether they are satisfied their views have been considered, as part of the Commission’s consultation on the Regulatory Business Plan (once submitted).

5 Engagement should cover all categories of proposed expenditure

SA Water must provide evidence that its stakeholder engagement has been genuine and meaningful. The Regulatory Business Plan must clearly set out how stakeholder feedback has informed the proposed expenditure.

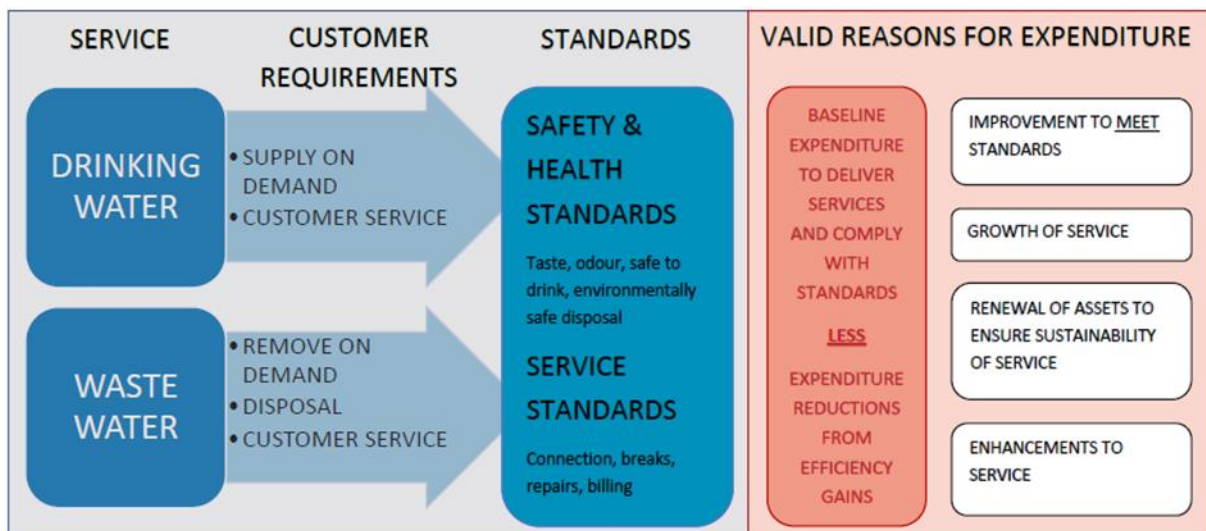
The Commission’s view is that genuine and meaningful engagement involves:

- ▶ stakeholders being involved as early as possible in the decision making process
- ▶ the provision of sufficient detailed information for stakeholders to be able to make informed and useful contributions to the decision making process
- ▶ structured opportunities for discussion and questioning
- ▶ a diversity of perspectives, and
- ▶ a genuinely open and collaborative attitude from all participants, including SA Water.

This type of engagement must occur early in the decision making process in order to maximise the opportunities for meaningful stakeholder contributions across all areas of SA Water’s business.

SAWRD24 Guidance Paper 1⁹ introduced a simple model to describe SA Water’s core business for the purposes of the regulatory determination:

Figure 1: SA Water business model for regulatory determination



⁹ SA Water RD24 Guidance Paper 1: The Regulatory Business Plan available: [SAWRD24-GuidancePaper1](#)

Regardless of the reason for proposed expenditure, SA Water should be as open and transparent as possible about the challenges it is facing and the time horizon for developing and delivering a solution. To facilitate meaningful discussions, SA Water should provide stakeholders with the necessary background, context and history on an issue, and then participate actively in open discussions about possible responses to those challenges.

SA Water should involve stakeholders in consideration of the nature of an issue or opportunity, whether it should be addressed in the regulatory period, the range of options to address it, and how the preferred option should be prioritised, integrated with other proposals, and implemented. This will be an iterative process where SA Water must seek to explain its thinking on issues and learn and adapt in response to stakeholder feedback.

This discussion should include a meaningful consideration of the risks and consequences of deferring or taking no action. In some instances, SA Water may have little or no discretion to change the requirement to do something; this should be made clear to stakeholders.

While the requirement for action may be clear, there are likely to be multiple options for achieving the required outcomes and stakeholders can add value around challenging *'what'* needs to be done to achieve the most effective and efficient outcomes.

Stakeholders can also add value to discussions about *'how'* the various options will impact on customers, given their diverse backgrounds and perspectives.

Engagement must also include a holistic perspective, that is, looking at the full portfolio of proposed expenditures and contributing to the development of a prioritised and integrated work program.

The Commission's expectations for stakeholder engagement in relation to each category of expenditure are discussed below.

5.1 Baseline expenditure for service delivery

Baseline expenditure relates to ongoing service delivery and is a significant portion of the overall proposed expenditure in a Regulatory Business Plan. Delivering services should primarily involve work that is routine and repeatable, with improvements in areas such as technology and strategic contracting arrangements likely to result in ongoing efficiencies. This means that any proposed increases in this expenditure should be able to point to a clear driver.

Given the contribution of this driver of expenditure towards overall expenditure requirements, SA Water should explain and discuss its current standards with stakeholders.

The Commission sets minimum service standards as part of the Regulatory Determination. For the current SAWRD20 regulatory period, the Commission set service standards to reflect customer needs and priorities in four key areas:

- ▶ responsiveness of and satisfaction with customer service
- ▶ timeliness of connections
- ▶ responding to interruptions, and
- ▶ restoration of service.¹⁰

¹⁰ SA Water Regulatory Determination 2020 service standard schedule, available <https://www.escosa.sa.gov.au/industry/water/codes-and-guidelines/service-standards>

As for the SAWRD20 regulatory period, SA Water is expected to discuss all key aspects of these service standards with customers and recommend any changes to the current standards in the Regulatory Business Plan. This must be supported by robust evidence of the costs and benefits to customers from the enhancements.

An important part of discussing service standards is the trade-off between the cost of providing services and the risk to service for customers. SA Water should explain how it assesses the risks to service for customers in developing its proposals, and how it monitors and adapts its plans to respond to its operating environment.

SA Water should be able to explain what it has spent in the past and what it expects to spend in the future. Where SA Water expects there to be a step-change in the cost of service provision, it should explain the drivers behind that change.

In discussing its baseline expenditure, SA Water should demonstrate how it has identified and embedded ongoing efficiencies in the past, and what its expectations are for further future efficiencies. This is an important aspect of the discussion, as it helps SA Water to demonstrate how it has delivered on its past commitments to continually improve on how it delivers its core services, and that it is only seeking additional expenditure where further efficiencies cannot reasonably be achieved.

5.2 Improvements to meet standards

If there are safety, health, service or other legally-binding or regulatory standards or obligations that SA Water is currently not meeting, or if there are changes to the standards that SA Water is legally required to meet, expenditure to achieve compliance with these standards would be reasonable and appropriate in principle.

For this category of expenditure, SA Water needs to be able to explain where it needs to change current practices or increase its expenditure to meet current standards.

Expenditure in this category does not include areas where SA Water has imposed its own internal standards aimed at continual improvement in service outcomes. This type of expenditure is better classified as 'enhancements to service', which is discussed below.

5.3 Growth of service

Over time, SA Water needs to expand its network to meet increasing demand, either within its current distribution area or as directed by Government or permitted by legislation.

For this category of expenditure, SA Water needs to be able to explain the assumptions used in its forecasts for growth. Discussions around growth should be able to differentiate between augmentations required to meet changes in the general population and targeted development projects where future demand may be less firm and contingent upon single large customers, who should, in principle, be sharing costs and risks.

5.4 Renewal of assets to ensure sustainability of service

The Regulatory Business Plan needs to clearly articulate the expenditures proposed in the regulatory period to renew assets in order to ensure the long-term viability of its services, demonstrating clear and logical risk-based prioritisation, strong integration with long-term asset management plans, and efficient use of resources.

For this category of expenditure, SA Water needs to be able to explain its asset profile, its long-term performance outcomes, any evidence that long-term performance outcomes will not be able to be

maintained, and how the lowest lifecycle cost for managing the assets to minimise the risk to service has been considered in the options proposed.

5.5 Enhancements to service

Any proposed expenditures to enhance services that do not fall into the categories listed above are not mandatory expenditures, and therefore must have a very strong value proposition to be included in the Regulatory Business Plan. SA Water must clearly articulate the costs and benefits to customers, as well as whether there is stakeholder, legislative, policy or other support for it.

6 Relationship between Regulatory Business Plan engagement and business-as-usual engagement

SA Water's stakeholder engagement to support preparation of the Regulatory Business Plan should be integrated with its ongoing programs of stakeholder engagement.

Just as the Commission expects the Regulatory Business Plan to be a clearly articulated subset of SA Water's long-term strategies and asset management plans, it is important for SA Water to be able to explain the relationship between its Regulatory Business Plan engagement program and its other ongoing stakeholder engagement activities. There should be clear links and strong integration between the two, in part to demonstrate how SA Water is progressively building productive stakeholder relationships over time.

Explaining this wider context will assist stakeholders to understand how SA Water has responded to previous feedback, how its understanding of its customers and the community continues to evolve over time, how it adapts its future plans in response to customer feedback, and how it measures success.



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