



Consultation on Draft Regulatory Information Requirements for Major Water Retailers - April 2013

The Essential Services Commission of South Australia (**the Commission**) is consulting on the draft amendment to Water Industry Guideline No.2 (version WG2/02) that sets out information reporting requirements to apply to major water retail licensees (currently only SA Water). The amendment is to include financial reporting requirements to already existing operational performance reporting requirements. A similar guideline has been developed for minor and intermediate licensees.

REQUEST FOR SUBMISSIONS

The Commission welcomes comment from all interested parties on the draft amendment to Water Industry Guideline No.2 and will consider all submissions in finalising this Guideline. Comments are required by COB 15 May 2013.

The Guideline can be downloaded from the Commission's website and written submissions can be made via email or letter.

BACKGROUND

Under the Water Industry Act 2012 (**WI Act**), the Commission is responsible for the economic regulation of water and sewerage services, which includes services provided by SA Water, Local Government and private operators. Our role includes licensing,

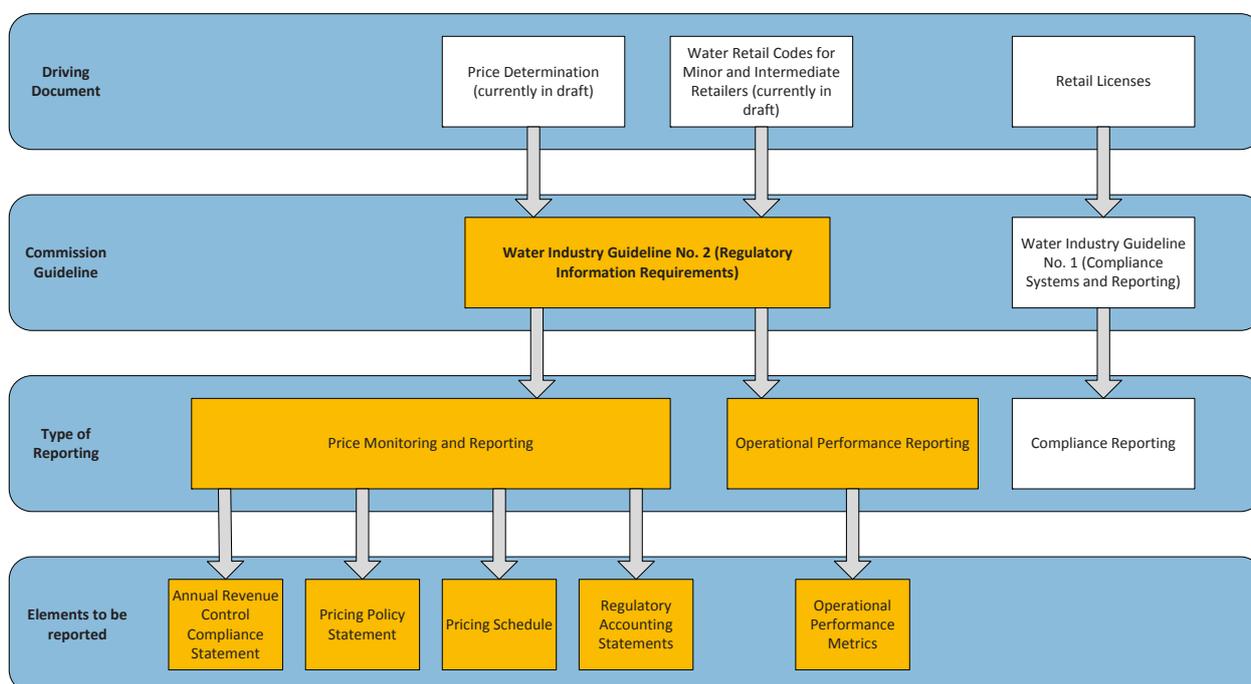
consumer protection, performance monitoring, compliance and retail pricing matters.

This fact sheet has been prepared to accompany the release of the draft amendment to Water Industry Guideline No.2 which provides for the inclusion of financial reporting requirements to already existing operating performance reporting requirements. The Guideline includes proformas to be used to report required information to the Commission.

Water Industry Guideline No.2 does not deal with the reporting of compliance by a licensee. That is dealt with separately by the Compliance Systems and Reporting Guideline (Water Industry Guideline No.1).

The reporting framework below sets out how the Guideline fits in with other reporting obligations for major retailers.

Reporting Framework for Major Retailers



DEVELOPING REGULATORY REPORTING REQUIREMENTS

All water industry entities licensed under Part 4 of the WI Act will be required to report financial and operational performance information to the Commission.

In developing the Guideline, the Commission has drawn on reporting requirements that have existed for other South Australian regulated industries, reporting requirements for water businesses in other Australian jurisdictions, and the National Water Initiative (NWI) National Performance Framework. As the only major licensee, the Commission has worked closely with SA Water in developing these Guidelines.

Good regulatory practice requires that information only be collected that is relevant and useful to the regulator. The Commission is cognisant that regulatory reporting requirements place a cost on the regulated entity and has sought to minimise those costs whilst ensuring the Commission is protecting the long term interests of water and sewerage consumers through monitoring and reporting of performance.

The current Water Industry Guideline No.2 (WG2/01) already includes operating performance measures and service standards and the Commission will not be reviewing these at this time.

The revised Guideline will apply from 1 July 2013. Reporting timeframes are detailed in the Guideline.

The Commission will produce an explanatory memorandum, to accompany the final Guideline to be released in June 2013, to provide a plain English description of the provisions in the Guideline and to help licensees complete the required proformas.

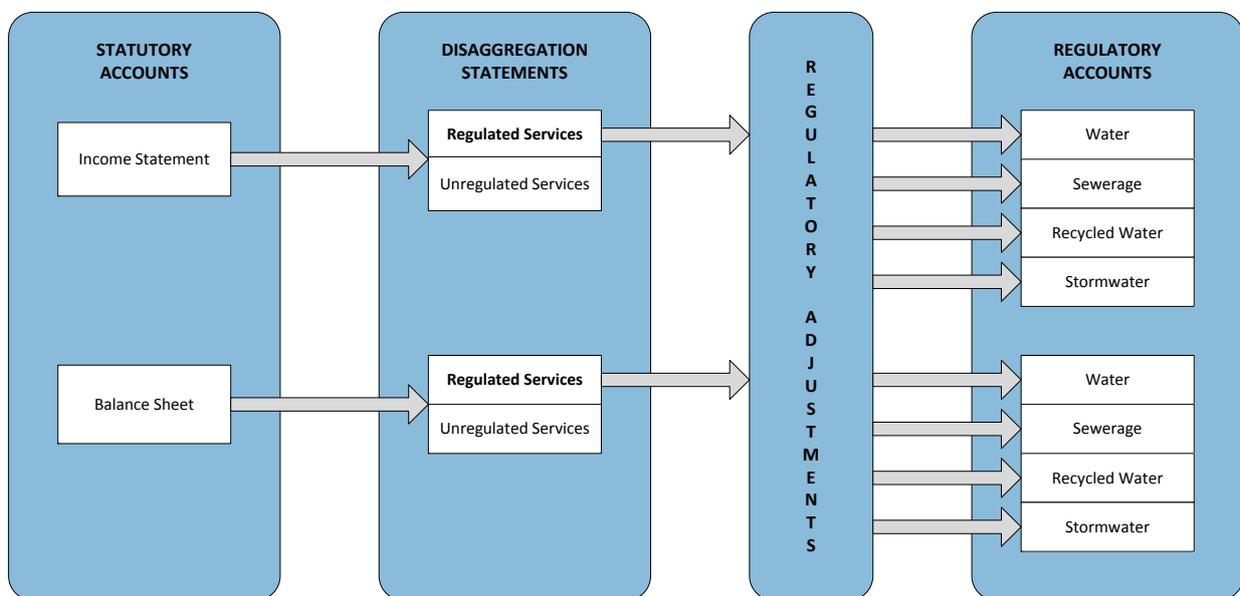
RATIONALE FOR FINANCIAL REPORTING REQUIREMENTS

Data submitted to the Commission in the annual Regulatory Accounting Statements by licensees will serve a number of purposes. The Commission is required to publicly report on pricing outcomes for water retail services subject to price regulation and will do this through its South Australian Water Industry Annual Performance Report. The Commission requires a variety of information inputs relating to revenue and costs for this purpose. Eventually, the Annual Performance Report will allow customers to compare a number of financial and operational performance metrics from all South Australian water retailers. This greater transparency of financial information for customers is a key objective of water regulatory reform.

The Regulatory Accounting Statement proformas for major licensees have also been developed to provide the basis of the information that will be required by the Commission for the next pricing determination for SA Water.

FINANCIAL REPORTING REQUIREMENTS

Part B of the revised Guideline relates to proposed requirements specific to financial reporting, requiring preparation of Regulatory Accounting Statements, and includes a series of proformas to be completed on an annual basis. The diagram below illustrates the general process for preparing Regulatory Accounting Statements, but does not substitute for an understanding of the Guideline:



The sections below provide a summary of the requirements of each of the Regulatory Accounting Statements proformas in the Guideline.

Statutory Accounts (FR1.1 & FR2.1)

Licensees must report the Statutory Accounts for the entity that includes all transactions and balances relating to the provision of all water and sewerage retail services.

Disaggregated Statements (FR1.2, FR2.2 & FR2.5)

Not all services provided by licensees are retail services, as defined under section 4 of the WI Act, and consequently the Commission has no price regulation powers over those services. The licensee must therefore split (disaggregate) its Statutory Accounts into amounts relating to the provision of retail (Regulated) and non-Regulated services.

The Commission separates retail services into two categories: direct control services, which are subject to revenue caps, and excluded services, which are to be subject to alternative forms of control, e.g. pricing principles or price monitoring. The Commission therefore also requires major licensees to disaggregate their Statutory Accounts into direct control services and excluded services. The Commission has set out the classification of services in its Draft Determination of SA Water's Drinking Water and Sewerage revenues 2013/14-2015/16.

The licensee will need to supply working papers to evidence the statutory account disaggregation.

Regulatory Adjustments (FR1.3, FR1.4, FR2.3 & FR2.4)

Regulatory accounting adjustments are those adjustments necessary to restate the financial statements to reflect different required treatment of certain costs. The intention of requiring these adjustments is to remove distortions in the asset base and to improve comparability across retailers. The Guideline includes instances in which the Commission may require regulatory adjustments.

Regulatory accounting adjustments must be accounted for by journal entries applied to the disaggregated statements and relevant working papers must be included in the information reported to the Commission.

Regulatory Accounting Statements (FR1.5, FR1.6, FR2.6 & FR2.7)

The Regulatory Accounting Statements provide financial data split by regulated business segments (water, sewerage & trade waste, recycled water, and stormwater) and activity areas which allows analysis of licensee financial performance.

Income should be analysed by revenue source, operating costs should be split by activity area, and capital expenditure should be disclosed by investment driver and type of infrastructure, for each regulated business segment.

The proformas detail the mandatory account headings to be used for the Regulatory Accounting Statements, and discretionary account headings shall be used in accordance with the requirements in the Guideline.

Costs associated with the supply of recycled water and stormwater retail services should be allocated to regulated business segments on a beneficiary pays approach as detailed in the National Water Initiative Pricing Principles.

Pricing Schedule and Pricing Policy Statement

SA Water's Draft Determination specifies that SA Water must prepare:

- an annual revenue control compliance statement which includes proposed drinking water retail service and sewerage retail service prices to apply for the next regulatory year; and
- for recycled water and excluded retail services only:
 - a pricing schedule, setting out the prices which SA Water will charge customers for the sale and supply of recycled water or excluded retail services for that regulatory year; and
 - a pricing policy statement which demonstrates the manner in which the prices that SA Water will charge customers for the sale and supply of recycled water or excluded retail services for that regulatory year meet the NWI Pricing Principles.

Other Information

The Commission requires a Director Responsibility Statement to accompany information reported under the Guideline, and major licensees must procure an audit and submit a Regulatory Audit Report relating to their Regulatory Accounting Statements.

FURTHER INFORMATION

Any queries relating to this consultation should be directed to the Commission.

- Richard Webster, Senior Regulatory Officer

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