

WATER REGULATORY INFORMATION REQUIREMENTS FOR MAJOR RETAILERS

Water Industry Guideline No. 2 (WG2/02)

Explanatory Memorandum

October 2013



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The Essential Services Commission of South Australia is the independent economic regulator of the electricity, gas, ports, rail and water industries in South Australia. The Commission's primary objective is the *protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services*. For more information, please visit www.escosa.sa.gov.au.

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GLOSSARY OF TERMS

Commission	Essential Services Commission of South Australia
Concession	A South Australian Government water or sewerage concession
Customer	<p>a person who owns land in relation to which a retail service is provided and includes:</p> <ul style="list-style-type: none"> • where the context requires, a person seeking the provision of a retail service; and • in prescribed circumstances—a person supplied with retail services as a consumer or user of those services (without limiting the application of this definition to owners of land); and • a person of a class declared by the regulations to be customers
CWMS	Community Waste Management System
EPA	Environment Protection Agency
ESC Act	Essential Services Commission Act 2002 (SA)
ESCOSA	Essential Services Commission of South Australia
FR	Financial Reporting Proforma, as contained in Water Industry Guideline No. 3
Government	Government of South Australia
Intermediate Retailer	means a retailer which provides retail services to more than 500 and up to and including 50,000 connections
LGA	Local Government Association of South Australia
Major Retailer	means a retailer which provides retail services to over 50,000 connections
Minor Retailer	means a retailer which provides retail services to up to and including 500 connections
National Performance Framework or NPF	National Performance Framework: Urban Performance Reporting Indicators & Definitions Handbook
Non-residential Customer	a customer other than a residential customer

NWC	National Water Commission
NWI	National Water Initiative
OP	Operational Proforma, as contained in Water Industry Guideline No. 2
Price Determination	means the a price determination made by the Commission under the WI Act and Part 3 of the ESC Act
Residential Customer	a customer who acquires a retail service primarily for domestic use
Retailer	a water industry entity licensed in accordance with Part 4 of the WI Act
Retail Service	has the same meaning as given to the term in the WI Act and covers a water service and/or a sewerage service supplied through a reticulated system, including: <ul style="list-style-type: none"> • drinking water services; • non-drinking water services; and • sewerage services.
SA Water	South Australian Water Corporation
Sewerage Service	has the same meaning as given to the term in the WI Act
Statutory Accounts	Financial statements, prepared in accordance with the <i>Corporations Act 2001</i> (Cth) and Australian Accounting Standards
WI Act	<i>Water Industry Act 2012</i> (SA)
Water Industry Guideline No. 1	Compliance Systems and Reporting, Water Industry Guideline No. 1 (WG1/01)
Water Industry Guideline No. 2	Water Regulatory Information Requirements, Water Industry Guideline No. 2 for Major Retailers (WG2/02)
Water Industry Guideline No. 3	Water Regulatory Information Requirements, Water Industry Guideline No. 3 for Minor and Intermediate Retailers (WG3/01)
Water Retail Code	<i>Water Retail Code – Major Retailers</i> , which is an industry code made by the Commission, in accordance with Part 4 of the ESC Act
Water Service	has the same meaning as given to the term in the WI Act

1. OVERVIEW

This Explanatory Memorandum has been prepared to accompany the release of draft Water Industry Guideline No.2 (version WG2/02) (**Water Industry Guideline No.2**), which will apply to major retailers.¹ This Explanatory Memorandum is intended to provide a plain English description of the provisions of Water Industry Guideline No.2.

All water industry entities licensed under Part 4 of the Water Industry Act 2012 (**WI Act**) will be required to report financial and operational performance information to the Essential Services Commission of South Australia (**Commission**).

Water Industry Guideline No. 2 provides for the collection, allocation and recording of financial and operational performance data, to be reported to the Commission in accordance with the requirements and proformas specified in the Guideline.

The extent of an individual retailer's reporting requirements will be determined by the size of its customer base.² This Water Industry Guideline No. 2 relates to Major Retailers only, i.e. retailers 50,000 or more connections. The South Australian Water Corporation (**SA Water**) is currently the only Major Retailer. There is a separate guideline for Minor and Intermediate Retailers (those retailers with up to 50,000 connections).³ This is consistent with the licensing provisions under section 25(2) of the WI Act requiring the Commission to *'have regard to the scale and nature of the operations of the water industry entity.'*

Information collected under this Guideline will be used to assist the Commission to monitor the performance of Major Retailers.

Financial performance monitoring and reporting will provide greater transparency of prices, the costs of providing water and sewerage services, and any subsidies that are being applied to those services. The Commission also requires financial data from SA Water to inform future price/revenue determinations.

Operational performance monitoring and reporting are used to inform customers about the quality and reliability of the services they receive (at an aggregate level) and identify reasons for poor performance. It allows for the comparison of businesses, by gauging relative performance within an industry (comparative competition) or with businesses performing comparable operations in other industries; and identifies baseline performance of individual businesses, providing incentives for improvement.

Performance monitoring also provides the information and data required for developing service standards (or targets) and for ongoing assessment of compliance with such

¹ Essential Services Commission, *Water Regulatory Information Requirements-Water Industry Guideline No.2* (WG2/02), September 2013; available at <http://www.escosa.sa.gov.au/library/130926-WaterRegulatoryRequirements-MajorRetailers-GuidelineNo2-WG2-2.pdf>. WG2/02 identifies the version of the Guideline, with "WG2" referring to Water Industry Guideline No.2 and "02" signifying version 2.

² Retailers have been classified as major, intermediate and minor. Major retailers provide retail services to more than 50,000 connections, intermediate retailers provide retail services to more than 500 but less than 50,000 connections, and minor retailers provide retail services to up to and including 500 connections.

³ Water Regulatory Information Requirements Water Industry Guideline No. 3; available at: at <http://www.escosa.sa.gov.au/water-overview/codes-guidelines-and-rules/water-guidelines.aspx>

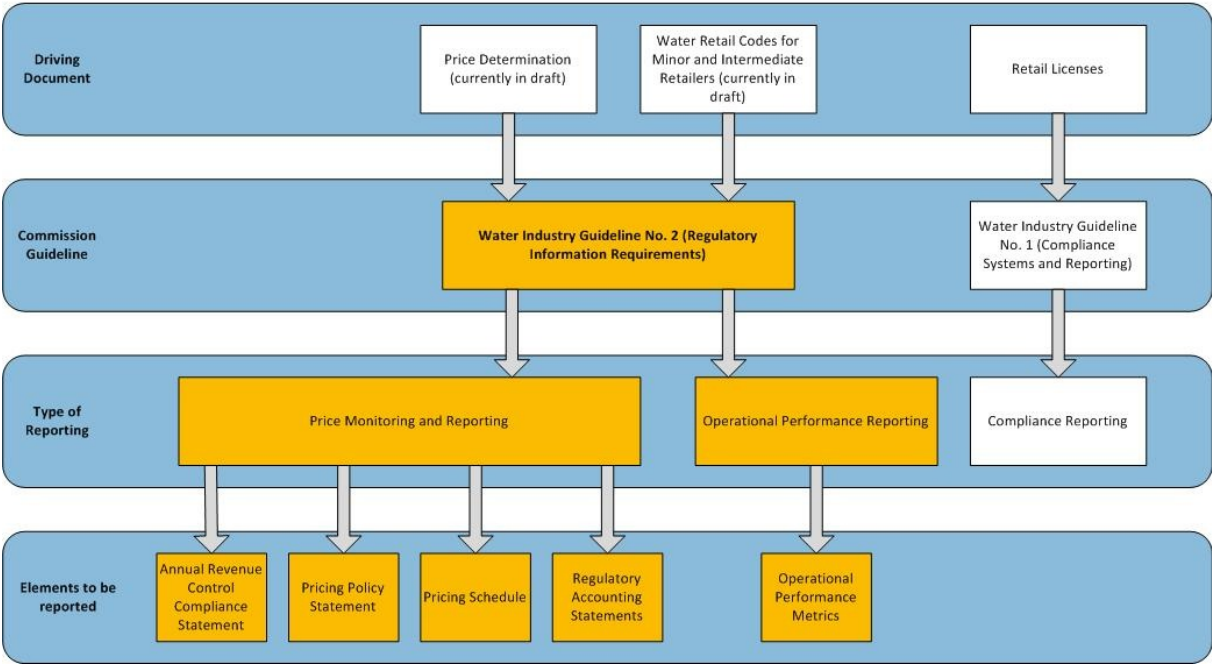
standards; and informs the decision making processes of regulatory agencies, water businesses and the Government.

The data collected under the Guideline will form an important input into the Commission’s Water Industry Annual Performance Report.⁴ That Annual Performance Report, which will report on the performance of all water retailers, will provide South Australian consumers with information on the operation of the water industry – one of the functions of the Commission under section 5 of the Essential Services Commission Act (ESC Act).⁵

Water Industry Guideline No. 2 does not deal with the reporting of compliance by a retailer. That is dealt with separately by the Compliance Systems and Reporting Guideline (**Water Industry Guideline No. 1**).⁶ Water Industry Guideline No.1 outlines the Commission’s expectations and requirements in relation to a retailer’s compliance system and compliance reporting arrangements.

Figure 1 below sets out how Water Industry Guideline No. 2 relates to other Commission reporting obligations for Major Retailers.

Figure 1: Reporting Framework for Major Retailers



⁴ The Commission will employ a similar format for the Water Industry Annual Performance Report to that used for reporting energy industry performance; available at <http://www.escosa.sa.gov.au/electricity-overview/market-information/energy-performance-monitoring/annual-performance-report-2010-11-sa-energy-supply-industry.aspx>

⁵ Refer sections 5(b), (c) and (d) of the ESC Act.

⁶ Essential Services Commission, *Compliance Systems and Reporting, Water Industry Guideline No.1(WG1/01)*; available at <http://www.escosa.sa.gov.au/library/121116-WaterIndustryGuidelineNo1-ComplianceReporting>

1.1 Categorising Water Industry Guideline No.2 metrics

Table 1 provides a table of contents for the measures retailers will be required to report under Parts B and C of the Water Industry Guideline No 2 and categorises the measures according to key areas, as a means of further demonstrating the purpose of each measure, as follows:

- ▲ Ring fencing – separates out regulated from unregulated services and adjusts financial information for different regulatory accounting treatment;
- ▲ Financial performance – metrics to assess financial performance by activity, revenue source and business segment;
- ▲ Asset information – provides asset data on movement in asset values in the year by asset type;
- ▲ Asset investment - provides data to assess asset investments;
- ▲ Water Retail Code – monitors the operation of sections of the Code;
- ▲ Service Standards – separate set of measures by which the performance of an individual retailer can be monitored and assessed at either the individual customer or whole-of-undertaking level;
- ▲ Operational reliability – monitors the level of performance similar to a service standard, but no specific targets are set;
- ▲ Statistical information – provides information on the nature and scale of the retailer’s operation and also assists in making comparisons between retailers (for example, customer numbers allows certain metrics, such as complaints, to be reported in terms of “per 100 customers”); and
- ▲ Data integrity – measures such as CEO verification of the data provided to the Commission.

Table 1. Measures by Categories

PROFORMA REFERENCE	PERFORMANCE MEASURE	PURPOSE
Income and Costs		
FR1.1	Audited statutory income statement	Ring fencing
FR1.2	Disaggregated income statement	Ring fencing
FR1.3	Regulatory income statement – Direct control services	Ring fencing
FR1.4	Regulatory income statement – Excluded services	Ring fencing
FR1.5	Regulatory income and operating cost analysis – Direct control services	Financial performance
FR1.6	Regulatory income and operating cost analysis – Excluded services	Financial performance

PROFORMA REFERENCE	PERFORMANCE MEASURE	PURPOSE
Assets		
FR2.1	Audited statutory balance sheet	Ring fencing
FR2.2	Audited statutory asset schedule	Ring fencing
FR2.3	Disaggregated IPPE schedule	Ring fencing
FR2.4	Regulatory asset base schedule	Asset information
FR2.5	Regulatory asset base to statutory accounts reconciliation	Asset information
FR2.6	Excluded services asset base schedule	Asset information
FR2.7	Regulatory capital expenditure analysis – Direct control services	Asset investment
FR2.8	Regulatory capital expenditure analysis – Excluded services	Asset investment
FR2.9	Regulatory project capital expenditure analysis – Direct control services	Asset investment
Customer Service		
OP1.1	Timeliness of response to telephone calls	Service Standard*
OP1.2	Customer complaints	Water Retail Code (clauses 3.1 & 3.2)*
OP1.3	Timeliness of response to complaints	Service Standard
OP1.4	Timeliness of response to water quality complaints	Service Standard
OP1.5	Timeliness of connection	Service Standard
OP1.6	Timeliness of processing trade waste applications	Service Standard
Financial		
OP2.1	Restrictions & legal action for non-payment	Water Retail Code (clause 30)*
OP2.2	Financial support measures	Water Retail Code (clause 9)
OP2.3	Price movements	Water Retail Code (clause 9)*

PROFORMA REFERENCE	PERFORMANCE MEASURE	PURPOSE
Reliability		
OP3.1	Water infrastructure reliability	Operational Reliability*
OP3.2	Timeliness of attendance at water bursts & leaks	Service Standard
OP3.3	Timeliness of water service restoration	Service Standard
OP3.4	Sewerage infrastructure reliability	Operational Reliability*
OP3.5	Timeliness of sewerage service restoration	Service Standard
OP3.6	Timeliness of sewerage overflow attendance	Service Standard
OP3.7	Timeliness of sewerage overflow clean up	Service Standard
Statistical		
OP4.1	Statistical information	Statistical information
Assurance		
Annexure B	Responsibility statement	Data integrity

*Incorporates one or more National Performance Framework measures⁷.

⁷ For example, refer to National Water Commission, *2011-12 National Performance Framework: Urban performance reporting indicators and definitions handbook*, June 2012; available at <http://www.nwc.gov.au/>

2. SERVICE STANDARDS

The Water Industry Act provides the Commission with the power to set customer service standards and targets for those service standards to be met by retail service providers. As water and sewerage services are essential services, it is appropriate for the Commission to require high levels of customer service from retailers.

As indicated in Table 1, the service standards of key interest to the Commission, noting that there are other standards monitored by other regulators (e.g. water health overseen by Department of Health), relate to the performance of retailers in providing services, such as responsiveness to requests for services and dealing with any interruptions to such services.

2.1 Best Endeavours

The Commission will adopt a *best endeavours* approach to determining if a specific service standard target has been met. The Commission's definition of best endeavours in the regulatory context is "to act in good faith and use all reasonable efforts, skill and resources to achieve an outcome in the circumstances".

As explained in the Draft Advice to the Treasurer on establishing the water regulatory framework:

Although a "best endeavours" obligation is not as onerous as an absolute obligation (like "must" or "shall"), the test to be applied in determining whether a party has satisfied its obligation is that of what is prudent and reasonable in the circumstances. Best endeavours are something less than the efforts which go beyond the bounds of reason, but are considerably more than casual and intermittent activities They must at least be doing all that a reasonable person could reasonably do in the circumstances. An obligation to use best endeavours means a party is required to act honestly, reasonably and make a positive effort to perform the relevant obligation.⁸

The Commission adopts a two-fold test in assessing performance against the best endeavours standards:

1. first, has the target been met?;
2. if not, did the relevant retailer nevertheless use its best endeavours in its attempts to meet the target?

Where targets are not met, the retailer is required to advise the Commission why the target was not met, what action it took at the relevant time in an attempt to ensure the target was met, the nature of any preparation activity undertaken prior to the event(s) (e.g. internal procedures and protocols set for handling such instances, the level of planning and the ability to call on additional resources when required) and any subsequent improvements implemented. In short, the retailer must provide the Commission with sufficient information

⁸ Essential Services Commission, *Economic Regulation of the South Australian Water Industry-Draft Advice-Public Version*, August 2011, page 51; available at <http://www.escosa.sa.gov.au/library/111110-EconomicRegulationWaterIndustry-DraftAdvice.pdf>

to enable the Commission to form a view as to whether or not best endeavours were employed in those circumstances.

It is only in cases where both elements of this test are not satisfied that the retailer will be found to have failed to meet the standard. That is, the retailer may fail to meet a target but, provided it used its best endeavours in attempting to meet that target, it would still satisfy the standard. A test of this sort allows for a more discretionary assessment of performance, focussing on customer service delivery in a wide range of circumstances. Such a test can also better protect consumer interests, on the basis that it permits the Commission to undertake a detailed assessment of particular circumstances or events on their merits and to report those events publicly.

The Commission sets high targets for best endeavours service standards where the level of service performance is critical to the customer and the resulting level of reporting by the licensed entity is not unduly onerous.

2.2 Approach to determining SA Water's service standards for 1 January 2013 - 30 June 2013

The Commission determined that it would set the initial service standards for SA Water with targets at a level that reflected underlying historical performance. This approach⁹ resulted in a service standards schedule for SA Water for the period 1 January 2013 to 30 June 2013 being published in November 2012.¹⁰

2.3 Approach to determining SA Water's service standards for the 2013/14 - 2015/16 regulatory period

The Commission's Draft Revenue Determination for SA Water proposed that the above mentioned service standards continue to apply for the initial regulatory period (2013/14 – 2015/16), on the basis that they reflected existing service levels, as reported to the Commission by SA Water.¹¹ In its submission to the Draft Revenue Determination, SA Water advised that it had formed the view that there had been data quality issues with information it had supplied to the Commission through the process described above for the purposes of target setting.

⁹ A copy of the Commission's decision process can be located in the Water Guideline No. 2 (WG2/01) Explanatory Memorandum located at: http://www.escosa.sa.gov.au/library/121220-WaterIndustryGuidelineNo2_WG2_01-ExplanatoryMemorandum.pdf

¹⁰ A copy of the SA Water service standards schedule for this period is available at <http://www.escosa.sa.gov.au/library/121116-WaterServiceStandardsSchedule-InitialRegulatoryPeriod.pdf>

¹¹ Essential Services Commission of South Australia, *SA Water's Water and Sewerage Revenues 2013/14-2015/16 Draft Determination-Statement of Reasons*, February 2013, page 20; available at http://www.escosa.sa.gov.au/library/130206-SAWatersWaterSewerageRevenues_2013-16-DraftDetermination-StatementOfReasons.pdf.

Subsequently, the Commission undertook a process to reset the targets to apply to SA Water service standards performance for 1 July 2013 to 30 June 2016.¹² The resulting SA Water service standards schedule is available at on the Commission's website¹³

As a result of these service standard changes amendments were made to Water Industry Guideline No. 2 and this explanatory memorandum.

¹² Essential Services Commission of South Australia, *SA Water Service Standard 2013/14 - 2015/16 Final Decision*, September 2013, available at: http://www.escosa.sa.gov.au/library/130926-SAWaterServiceStandards_2013-2016-FinalDecision.pdf

¹³ The current SA Water service standards schedule for this period is available at http://www.escosa.sa.gov.au/library/130926-SAWaterServiceStandards_2013-2016-Schedule.pdf

3. PART A – PRELIMINARIES

Part A of the Guideline sets out preliminary matters.

3.1 *Nature of the Guideline*

Section 1 provides a preamble for the Guideline.

3.1.1 *Introduction (clause 1.1)*

This clause specifies that the Guideline relates to the collection, allocation, recording and reporting of regulated business data.

3.1.2 *Purpose of the Guideline (clause 1.2)*

This clause sets out the authority for making the Guideline and the purpose for which the data will be used.

3.1.3 *Application (clause 1.3)*

This clause establishes which organisations are bound to report under the Guideline. This Guideline applies to all Major Retailers except to the extent the Commission agrees in writing to alternative reporting arrangements.

3.1.4 *Definitions and interpretations (clause 1.4)*

This clause explains the basis for interpreting the Guideline and the meaning of certain expressions.

3.1.5 *Processes for revision (clause 1.5)*

This clause sets out the process for revising the Guideline, which will involve stakeholder consultation, with the possible exception of amendments of a routine nature or required by law.

3.1.6 *Input from interested parties (clause 1.6)*

The Commission welcomes suggestions from stakeholders on how to improve the Guideline at any time.

3.2 *General Principles of Preparation*

Section 2 states the general requirements for providing information to the Commission.

3.2.1 *Substance to prevail over legal form (clause 2.1)*

This clause requires that the information reported must reflect the true purpose of the relevant circumstance, transaction or event, not a contrived outcome.

3.2.2 Information provided shall be verifiable (clause 2.2)

This clause requires retailers reporting under the Guideline to maintain accounting and other records which enable the required information and metrics to be verified.

3.2.3 Materiality (clause 2.3)

This clause establishes the standard of materiality the Commission will apply and is focused on ensuring that an accurate view of the financial and operational position of the business is provided.

3.2.4 Responsibility Statement (clause 2.4)

This clause sets out the requirement for a responsibility statement to accompany data submitted and the required organisational level of sign-off and manner of sign-off, as a means of providing assurance to the Commission on the accuracy of that data.

3.2.5 Quality assurance requirements (clause 2.5)

This clause sets out data quality assurance requirements required of retailers, including the requirement for an audit of the regulatory accounting statements. The Commission can also require audits or independent assurance of any other information submitted to it.

In relation to data quality assurance requirements:

- ▲ a reference to “a true and accurate representation” (clause 2.5.1) means that the retailer must use *best endeavours* to provide accurate data that materially reflects the relevant circumstances, transactions or event at the time the data is submitted, noting the processes for submitting subsequent material data variations (clause 2.6);

In relation to audit requirements of the regulatory accounting statements:

- ▲ the Commission requires an audit which will give reasonable assurance that the regulatory accounting statements have been prepared in accordance with the Guideline and fairly present the financial position and results of the retailer;
- ▲ a retailer must appoint and remunerate the auditor, but the auditor’s primary duty of care is to the Commission;
- ▲ where the auditor of the regulatory accounting statements differs from the statutory accounts, it is expected that the auditor of the regulatory accounting statements shall take as given the audited statutory accounts and shall limit its investigations into the statutory accounts to that which is necessary to form an opinion on the regulatory accounting statements;
- ▲ the auditor’s report shall be in the form specified in Annexure A in the Guideline, however, the Commission will allow minor deviations from the specified format; and
- ▲ audits must be completed within five months of the regulatory period end (by the end of November each year).

3.2.6 Data variation (clause 2.6)

This clause establishes the process for submitting any variations to data previously submitted to the Commission by the retailer.

4. PART B – FINANCIAL PERFORMANCE REPORTING

Part B of the Guideline relates to requirements specific to financial reporting, requiring preparation of regulatory accounting statements, and includes a series of proformas to be completed on an annual basis.

4.1 *Principles of Preparation for Financial Performance Reporting*

4.1.1 *Accounting principles and policies (clause 3.1)*

This clause sets out information on the election and disclosure of regulatory accounting principles and policies.

4.1.2 *Principle of disaggregation (clause 3.2)*

This clause explains the general process of transforming statutory financial information into regulatory accounting information. The Commission only requires information on water and sewerage retail services as defined by the WI Act. Major Retailers must therefore disaggregate their statutory accounts into amounts relating to regulated services (both direct control and excluded services) and unregulated services. Services falling into each category are established by the Price Determination made by the Commission,¹⁴ and a retailer must apply this to each set of regulatory accounting statements produced during the determination period.

The Commission also requires a retailer to allocate transactions and balances between different regulated business segments (water, sewerage, recycled water and stormwater) where a retailer provides more than one of these services. Where necessary, allocation of transactions and balances should be made in accordance with the allocation principles in clause 3.3.

4.1.3 *Allocation principles (clause 3.3)*

This clause sets out the rules by which a retailer must allocate transactions and balances between different business segments, activities etc. Amounts which are directly attributable (relate 100% to) a business segment or activity must be allocated as such. Where a transaction or balance relates to a number of business segments or activities (is a shared cost), it must be allocated ideally on a causal basis, i.e. by how much each business segment or activity consumed or utilised the resource or service. The Guideline also allows for allocation on a non-causal basis (where there is no way to allocate by consumption or utilisation); however, the aggregate of these amounts must not be material and disclosure of the method used must be provided.

¹⁴ Essential Services Commission of South Australia, *Determination of SA Water's Drinking Water and Sewerage Revenue 2013/14-2015/16*; available at <http://www.escosa.sa.gov.au/projects/186/determination-of-sa-water-s-drinking-water-and-sewerage-revenue-2013-14-2015-16.aspx>.

4.1.4 Account headings (clause 3.4)

This clause sets out the requirements on the use of mandatory and discretionary account headings in the financial reporting proformas.

The proformas in Schedule 1 of the Guideline include the headings that a retailer must use to categorise amounts and balances. These headings are standardised (mandatory) to improve comparability of information over years and between retailers.

Where use of an alternative heading would aid understanding of the financial information being disclosed the Guideline allows for discretionary headings to be used. A retailer should minimise the use of discretionary headings; however, if a retailer believes that any of the headings in the proformas should be permanently amended they should contact the Commission per clause 1.6 of the Guideline.

4.1.5 Regulatory accounting periods (clause 3.5)

This clause sets out that the reporting period will be the same as a retailer's statutory accounting period. A retailer is required to report to the Commission the financial reporting information in Schedule 1 within 5 months of the end of their financial year.

4.1.6 Books and records (clause 3.6)

This clause sets out the book keeping and record keeping requirements for retailers.

4.1.7 Errors and omissions (clause 3.7)

This clause sets out the requirements to report prior year errors and omissions to the Commission.

4.1.8 Tripartite meeting (clause 3.8)

This clause sets out that the Commission can meet with the auditor of a retailer's regulatory accounting statements, in the presence of the retailer, both prior to and after the audit of the regulatory accounting statements. This will help ensure that the audit is performed to the Commission's requirements and that the Commission is able to clarify any issues that arise from the auditor's findings.

4.2 Information Requirements for Financial Performance Reporting

4.2.1 Use of proformas to report information (clause 4.1)

Schedule 1 in the Guideline sets out the proformas retailers are required to complete.

4.2.2 Summary of reporting requirements (clause 4.2)

This clause summarises the financial reporting requirements included in the Guideline. Where the Guideline refers to regulatory accounting statements this means a set of reportable information that includes:

- ▲ all the completed proformas in Schedule 1;
- ▲ a copy of the relevant audited statutory accounts which encompass the whole of the water and sewerage retail operations;
- ▲ a management commentary (per clause 4.9);
- ▲ an auditor's report on the regulatory accounting statements;
- ▲ a completed responsibility statement (per clause 2.4);
- ▲ any accounting principles or policies used that are different from the statutory ones used; and
- ▲ explanatory notes that provide evidence of the information in the completed Schedule 1 proformas.

Retailers are also required to submit a pricing schedule and pricing policy statement to the Commission by the end of May each year.

4.2.3 Disaggregation statements (clause 4.3)

This clause requires retailers to separate out (disaggregate) amounts relating to the provision of water and sewerage retail services (regulated services) from all other services (non-regulated services), pursuant to clause 3.2. Amounts relating to regulated services must be split between direct services and excluded services. Note that retailers are only required to disaggregate their income statement and certain asset information (as detailed in the Schedule 1 proformas). All disaggregations must be supported by working papers which clearly evidence the splits down to general ledger codes.

4.2.4 Regulatory adjustments (clause 4.4)

This clause sets out that the Commission requires certain adjustments to the disaggregated accounts to reflect different accounting treatment for regulatory purposes. Some of the regulatory adjustments required are detailed in the Final Determination of SA Water's Drinking Water and Sewerage revenues 2013/14-2015/16.

Regulatory adjustments made by a retailer may include those relating to:

- ▲ customer contributions;
- ▲ gifted assets;
- ▲ different depreciation charge (due to exclusion of contributed assets);
- ▲ prior year regulatory adjustments;
- ▲ capitalised costs which the Commission considers should be treated as operating expenditure for regulatory purposes; and
- ▲ non-capitalised costs which the Commission considers should be treated as capitalised assets for regulatory purposes.

The proformas in Schedule 1 of the Guideline require regulatory adjustments to:

- ▲ the income statements for both direct control and excluded services; and

- ▲ the infrastructure, property, plant and equipment asset values for both direct control and excluded services.

The Commission also requires a regulatory asset base to statutory account asset base reconciliation. A retailer is required to detail the regulatory adjustments that affect asset additions and the net book value of assets (see proforma FR 2.5).

4.2.5 Income (clause 4.5)

This clause requires a retailer to disclose income according to the headings in the Schedule 1 proformas. Refer to the guidance notes below for proforma FR 1.2 for further information on what income to include in each heading.

4.2.6 Operating costs (clause 4.6)

This clause requires retailers to disclose costs according to the headings in the Schedule 1 proformas. Refer to the guidance notes below on proforma FR 1.2 for further information on what costs to include in each heading.

4.2.7 Capital expenditure (clause 4.7)

This clause requires retailers to disclose capital expenditure according to the headings in the Schedule 1 proformas. Refer to the guidance notes below on proformas FR 2.4, FR 2.7, FR 2.8 and FR 2.9 for further information on what costs to include in each heading.

4.2.8 Asset information (clause 4.8)

This clause requires retailers to disclose asset information according to the headings in the Schedule 1 proformas. Refer to the guidance notes below on proformas FR 2.4, FR 2.5 and FR 2.6 for further information on what information to include in each heading.

4.2.9 Management commentary (clause 4.9)

This clause sets out the requirements for a management commentary to accompany the regulatory accounting statements. The management commentary will principally identify and explain variances between the price determination and the reported regulatory accounting statements. The commentary should be sufficiently detailed to articulate the key factors impacting on financial performance and position.

4.3 Schedule 1 – Financial Performance Proformas

The Commission will use financial indicators, along with other information, as part of its performance monitoring of water and sewerage retailers. The Commission requires each retailer to provide consistent financial information annually. The proformas in Schedule 1 set out what financial information is required and how it must be presented. The Commission will require working papers to support the financial information reported.

4.3.1 Audited statutory income statement (FR 1.1)

A retailer must report the relevant audited statutory accounts that include all transactions and balances relating to the provision of all water and sewerage retail services. The audited statutory accounts are the starting point for the production of regulatory reporting statements.

4.3.2 Disaggregated income statement (before regulatory adjustments) (FR 1.2)

Not all services provided by a retailer are retail services, as defined under section 4 of the WI Act, and consequently the Commission has no price regulation powers over those services. A retailer must therefore split (disaggregate) its statutory accounts into amounts relating to the provision of retail (regulated) and unregulated services.

The Commission separates retail services for Major Retailers 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 Retailers to disaggregate their statutory accounts into direct control services and excluded services. The Commission has set out the classification of services in its Final Determination of SA Water's Drinking Water and Sewerage revenues 2013/14-2015/16.

A retailer will need to supply working papers to evidence the statutory account disaggregation.

4.3.2.1 Income

Income must be allocated into direct control services, excluded services and unregulated services, and into income account headings including the following:

WATER SALES

Usage charges for the consumption of water to all properties.

RESIDENTIAL RATES

Access charge for the supply of water or sewerage services to residential properties.

NON-RESIDENTIAL RATES

Access charge for the supply of water or sewerage services to non-residential properties.

COMMERCIAL RATES

Access charge for the supply of water or sewerage services to commercial properties.

TRADE WASTE

Volume and load based charges relating to customers authorised to discharge to sewer (includes common effluent schemes).

CONTRIBUTED ASSETS - NEW CUSTOMER CONTRIBUTIONS

Contribution, grant or donation received from an external party resulting in those assets coming under the control and ownership of the retailer.

CONTRIBUTED ASSETS - GIFTED ASSETS

Assets constructed by contractors or subdividers where the retailer takes control and ownership of the assets.

ASSET DISPOSAL

Net proceeds from the sale of capital assets, vehicles, plant, land, obsolete stock and water licences.

COMMUNITY SERVICE OBLIGATIONS

Funding received from Government for work to undertake services at less than commercial rates of return.

OTHER GOVERNMENT CONTRIBUTIONS

Grants received from Commonwealth or State Government to support specific expenditure programmes.

OTHER INCOME

Includes revenue relating to overdue payments, property visits in relation to non-payments, recoverable external works and other miscellaneous income.

4.3.2.2 Operating expenses

Operating expenses must be allocated into direct control services, excluded service and unregulated services, and into the following operating expenses account headings:

OPERATIONS AND MAINTENANCE

Operations and maintenance expenditure is inclusive of all direct and indirect expenditure associated with operating and maintaining SA Water's water and sewerage infrastructure. It involves both internal and external expenditure classified under three classifications, Operate, Preventative Maintenance and Corrective Maintenance.

TREATMENT COSTS

Treatment costs are classified as expenditure specific to water filtration and sewage treatment plants. This includes plants operated both internally by SA Water and plants operated externally via outsourced arrangements.

ADELAIDE DESALINATION PLANT (ADP) COSTS

ADP expenditure is defined as costs specific to the operations and maintenance of the Adelaide Desalination Plant. This includes costs associated with source water, treatment and transfer into the network.

CUSTOMER SERVICES AND BILLING

Expenditure (including labour) associated with the generation of customer accounts, collection of revenue and direct customer contact including costs associated with:

- ▲ customer service centre;
- ▲ credit and hardship policy;
- ▲ customer queries;
- ▲ invoice preparation, billings and mailing;
- ▲ managing revenue collection;
- ▲ administration of concessions;
- ▲ new connections, disconnections and reconnections;
- ▲ water rebate schemes to encourage wise water usage;
- ▲ land developments;
- ▲ developing customer strategy;
- ▲ technical services including trade waste, water investigations and connections delivery;
- ▲ new business development including alternative water; and
- ▲ key account management.

EXTERNAL FEES, LICENSES AND CHARGES

Such fees include those relating to:

- ▲ supply of property values;
- ▲ water planning & management;
- ▲ water catchment levies and water licences to local authorities for water rights;
- ▲ title searches;
- ▲ property data enquiry services;
- ▲ directors fees;
- ▲ bank agency paid to banks and agencies for the collection of rates on behalf of SA Water;
- ▲ bad debts written off;
- ▲ water security rebates;
- ▲ licence fees paid to the following regulators:
 - Environmental Protection Authority (EPA); and
 - Essential Services Commission of South Australia (ESCOSA).
- ▲ insurance premiums including property insurance and public liability; and
- ▲ audit fees.

CORPORATE COSTS

Activities which support frontline business operations (and which will be allocated to the water and sewerage business) include:

- ▲ chief executive office;
- ▲ financial management, planning and reporting;
- ▲ facilities management of properties and offices;

- ▲ capital procurement;
- ▲ energy services;
- ▲ contract management;
- ▲ corporate and operational goods and services;
- ▲ heavy and light fleet management;
- ▲ procurement systems and support;
- ▲ information services – applications support, ICT operations, IS strategy, architecture and management;
- ▲ human resource management and recruitment;
- ▲ staff training;
- ▲ strategy and planning;
- ▲ communications, external affairs, branding and media;
- ▲ regulation compliance and reporting;
- ▲ pricing;
- ▲ company secretariat;
- ▲ legal counsel;
- ▲ ministerial liaison;
- ▲ business assurance and risk management;
- ▲ insurance management; and
- ▲ records management.

OTHER COSTS

Costs not included in the above categories.

The retailer will need to supply working papers to evidence the corporate cost allocation methodology used.

4.3.2.3 Cost Allocation

Cost allocation should be undertaken in accordance with the allocation principles in the Guideline (per clause 3.3) as summarised below:

- ▲ Amounts which are directly attributable to water and sewerage retail services (regulated services) are assigned to water and sewerage retail services (regulated services).
- ▲ Amounts which are not directly attributable to water and sewerage retail services (regulated services) should ideally be allocated on a causation basis, i.e. by how much each business segment or activity consumed or utilised the resource or service. Where there is no way to allocate by consumption or utilisation amounts may be allocated on a non-causal basis, however, the aggregate of these amounts must not be material and disclosure of the method used must be provided.
- ▲ Amounts allocated should be supported by working papers that describe:

- ▲ the amounts that have been allocated;
 - ▲ a description of the allocation basis; and
 - ▲ the numeric quantity of each allocator.
- ▲ The Commission may require further information, or investigate a retailer's bases of allocation.

The Guideline allows a retailer to use additional headings if they will improve the users understanding of its business (per clause 3.4).

A retailer will need to supply working papers to evidence the amounts included in each account heading.

4.3.2.4 Depreciation and income tax

Depreciation expense and income tax must be allocated into direct control services, excluded service and unregulated services. A retailer will need to supply working papers to evidence the amounts included in each of these account headings.

4.3.3 Regulatory income statement - Direct control services (FR 1.3)

This proforma requires a retailer to apply regulatory accounting adjustments to the direct control services income statement.

Regulatory accounting adjustments are explained in clause 4.2.4 of this explanatory memorandum. The intention of requiring these adjustments is to remove distortions in the asset base and to improve comparability across retailers.

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

4.3.4 Regulatory income statement - Excluded services only (FR 1.4)

This proforma requires a retailer to apply regulatory accounting adjustments to the excluded services income statement. The information in section 4.3.3 of this explanatory memo is relevant to the completion of this proforma.

4.3.5 Regulatory income and operating cost analysis – Direct control services (FR 1.5)

Proforma FR 1.5 requires income and costs of direct control services to be split by the regulated business segment to which they relate – water, sewerage & trade waste, recycled water and stormwater. Where necessary, costs should be allocated in accordance with the cost allocation principles in clause 3.3 of the Guideline.

Further guidance on the classification of income and costs to recycled water and stormwater business segments is supplied below.

RECYCLED WATER AND STORMWATER SCHEMES

In its Final Determination of SA Water's Drinking Water and Sewerage revenues 2013/14-2015/16, the Commission accepted that wastewater recycling schemes would be classified as direct control sewerage services and stormwater reclamation would be classified as a direct control water service where SA Water can demonstrate that the scheme:

- ▲ is a prudent and efficient means of addressing environmental (discharge) obligations;
- ▲ forms part of a least-cost mix of diversified water sources needed to achieve required security of supply; or
- ▲ is driven by the need to trial new technologies, with the aim of achieving more efficient means of delivering a secure supply of water.

Where a recycled water scheme is the lowest cost option to meet stricter environmental standards on effluent discharge these costs should be allocated to the sewerage regulated business segment. The Commission requires recycled water and stormwater income to be disclosed under those two regulated business segments in this proforma.

SA Water has provided information to the Commission indicating that all of its recycled water schemes (other than the Glenelg to Adelaide Pipeline (GAP) and its three stormwater recycling schemes) are driven by EPA requirements, and are least-cost methods of treatment and disposal of sewerage.

4.3.6 Regulatory income and operating cost analysis – Excluded services (FR 1.6)

Proforma FR 1.6 requires income and costs of excluded services to be split by the regulated business segment to which they relate – water, sewerage & trade waste, recycled water and stormwater. Where necessary, costs should be allocated in accordance with the cost allocation principles in clause 3.3 of the Guideline.

4.3.7 Audited statutory balance sheet (FR 2.1)

A retailer must report the relevant audited statutory accounts that include all transactions and balances relating to the provision of all water and sewerage retail services. The audited statutory accounts are the starting point for the production of regulatory reporting statements.

4.3.8 Audited statutory asset schedule (FR 2.2)

A retailer must report asset information from its audited statutory accounts that demonstrate the movement in both water and sewerage infrastructure asset values over the regulatory year.

4.3.9 Disaggregated infrastructure, property, plant and equipment schedule (FR 2.3)

The Commission requires Major Retailers to disaggregate their statutory accounts into direct control services, excluded services and unregulated services. The Commission has set out

the classification of services in its Final Determination of SA Water's Drinking Water and Sewerage revenues 2013/14-2015/16.

The Commission only requires one line of the statutory balance sheet (infrastructure, property, plant and equipment) to be disaggregated. A retailer will need to supply working papers to evidence the statutory account disaggregation.

This schedule also requires regulatory adjustments to be applied to the disaggregated balances. Regulatory adjustment requirements are detailed in clause 4.4 of the Guideline and section 4.2.4 above.

4.3.10 Regulatory asset base schedule (FR 2.4)

The Commission requires a detailed analysis of the regulated asset base that shows the movement in categories of water and sewerage infrastructure assets over the regulatory year. The asset categories are as follows:

- ▲ Water pipes - major pipelines and all reticulation mains;
- ▲ Water non-pipes - all water assets other than pipes and the ADP (i.e. filtration plants, pumping stations, tanks, reservoirs);
- ▲ Adelaide Desalination Plant (ADP) - all assets comprising the ADP, including onsite pumping station and transfer pipelines as well as reverse osmosis membranes included as part of the capital fixed price construction contract;
- ▲ ADP membranes - reverse osmosis membranes which are replaced over a 5-7 year period (and expensed in the statutory accounts);
- ▲ Water corporate (depreciable) - Assets generally of an administrative nature, typically used in delivery of water and sewerage services and allocated on the basis of the aggregate value of the other water assets;
- ▲ Water corporate (non-depreciable) - land and other non-depreciable assets used in the delivery of water services and allocated on the basis of the aggregate value of the other water assets. Such assets are not assigned useful lives and are not depreciated;
- ▲ Sewerage pipes - all sewerage pipes;
- ▲ Sewerage non-pipes - all sewerage assets other than pipes (i.e. treatment plants, pumping stations);
- ▲ Sewerage corporate (depreciable) - assets generally of an administrative nature, typically used in delivery of sewerage services and allocated on the basis of the aggregate value of the other sewerage assets; and
- ▲ Sewerage corporate (non-depreciable) - land and other non-depreciable assets used in the delivery of sewerage services and allocated on the basis of the aggregate value of the other sewerage assets. Such assets are not assigned useful lives and are not depreciated.

4.3.11 Regulatory asset base to statutory accounts reconciliation (FR 2.5)

The Commission requires a reconciliation of capital expenditure and assets values between that reported in the statutory accounts and the regulated asset base (in FR 2.4). The

reconciliations must detail each material adjustment made to capital expenditure and assets values from the statutory accounts to arrive at the values in the regulated asset base. Proforma FR 2.5 details the headings to be used, but a retailer may include additional headings if they will better describe the regulatory adjustments made (pursuant to clause 3.4 of the Guideline).

4.3.12 Excluded services asset base schedule (FR 2.6)

The Commission requires an analysis of the excluded services asset base that shows the movement over the regulatory year in asset values by the regulated business segment to which they relate – water, sewerage & trade waste, recycled water and stormwater.

4.3.13 Regulatory capital expenditure analysis – Direct control services (FR 2.7)

The Commission requires capital expenditure to be disclosed by investment driver and investment strategy. Proforma FR 2.7 sets out the headings to be used, however, additional headings may be used if they will better describe the type of investment made (per clause 3.4 of the Guideline). Proforma FR 2.7 also requires that investments by category include disclose of gross expenditure, any contribution made by a party other than SA Water to that investment, and the net expenditure.

4.3.14 Regulatory capital expenditure analysis – Excluded services (FR 2.8)

The Commission requires capital expenditure to be disclosed by investment driver and investment strategy. Proforma FR 2.8 does not set out any headings. A retailer is required to choose appropriate investment driver and investment strategy headings for the capital expenditure they describe. Proforma FR 2.8 also requires that investments by category include disclose of gross expenditure, any contribution made by a party other than SA Water to that investment, and the net expenditure.

4.3.15 Regulatory project capital expenditure analysis – Direct control services only (FR 2.9)

The Commission requires expenditure on significant capital projects to be disclosed in order to monitor the delivery of projects and programs of work on an annual basis. Consistent with the level of detail required for the Revenue Determination, disclosure is required for projects with either a gross expenditure of over \$4m in the year, or a projected gross expenditure of over \$4m in the determination period.

For any projects where there is a material variance between the Revenue Determination forecast and the actual spend, and for any additional projects added in the year, a retailer shall provide a short narrative explaining the project variance/rationale.

5. PART C – OPERATIONAL PERFORMANCE REPORTING

Part C of the Guideline relates to requirements specific to operational performance reporting and includes a series of proformas to be completed by Major Retailers.

Generally accepted water industry definitions have been used in Water Industry Guideline No.2 where available.¹⁵ However, where a definition used by a retailer differs, the benefits of maintaining a valid time series of data should not be overlooked. Nevertheless, a Major Retailer must check with the Commission prior to adopting an alternative definition to that employed in Water Industry Guideline No.2.

Given the coverage of SA Water operations, Water Industry Guideline No.2 draws heavily on existing measures reported by SA Water for its internal purposes and for the National Performance Framework.

5.1 Information Requirements for Operational Performance Reporting

5.1.1 Use of Proformas to report information (clause 5.1)

Sets out that information is to be provided by completing the operational performance proformas in Schedule 2 of the Guideline.

5.1.2 Additional information requirements (clause 5.2)

Provides ability for the Commission to seek additional information from retailers from time to time.

5.1.3 Reporting requirements for retailers required to submit annual returns only (clause 5.3)

Requires that Major Retailers provide the Commission three Quarterly Reports (in respect of the September, December and March quarters), due no later than one calendar month after the end of that quarter; and an Annual Return, including data separately reported for the September, December, March and June quarters where required and the annual total, with a draft copy of the report due no later than 31 August and a final report and responsibility statement due no later than 30 September.

5.1 Operational Performance Proformas

Each proforma includes a General Guidance section to provide additional assistance.

Proformas with the prefix “Timeliness” refer to service standards. A copy of the current services standards is available from the Commission’s website at:

<http://www.escosa.sa.gov.au/water-overview/codes-guidelines/service-standards.aspx>

¹⁵ For example, as employed under the National Performance Framework.

5.1.1 Timeliness of response to telephone calls (OP 1.1)

This service standard is consistent with the generally adopted standard in the energy industry, although restricting the definition to “calls to a telephone operator” in accordance with the National Performance Framework definitions published by the National Water Commission (**NWC**) excludes a number of calls, such as IVR calls where the customer does not select an operator.¹⁶

However, given IVR calls are responded to instantaneously, adopting the water industry approach is not expected to negate the ability to compare water industry performance with the level of telephone responsiveness achieved by energy entities.

This performance measure is reported annually under the National Performance Framework. Water Industry Guideline No.2 will require quarterly reporting by SA Water, to enable close monitoring of this standard by the Commission.

The Commission is not requiring that this measure be reported by region (i.e. Adelaide metropolitan vs regional (country)). The National Performance Framework does not require such a disaggregation and energy retailers to date have not been required to report their performance on a regional basis.

To date, SA Water has not collected telephone call centre responsiveness data separately for metropolitan and regional areas and it may be technically difficult to do this automatically (i.e. without an exercise to link each call with customer account and then subsequently link to location).

The Commission is also not requiring that this performance measure be disaggregated into separate types of water and sewerage services, nor according to type of customer (e.g. residential vs non-residential), as the additional benefit is not seen to warrant the additional cost. Energy retailers to date have not been required to report their performance on such a basis.

For most measures three categories of information are required being: the gross total (e.g. total number of telephone calls), the number dealt with in the standard time period (e.g. number of telephone calls answered within 30 seconds) and the percentage achieved (e.g. percentage of telephone calls answered within 30 seconds). The percentage can be compared directly with the standard and the three pieces of information enable the accuracy of the percentage to be checked. However, the gross total also allows the Commission to assess the importance of the measure, e.g. if a standard is not met but affects few customers then this might suggest a different compliance approach than if the failure affected a large number of customers.

5.1.2 Customer complaints (OP 1.2)

The level of complaints and how well they are handled is an indication of the level of customer service being provided by a retailer. Monitoring this indicator allows the Commission to monitor retailers’ compliance with the Commission-approved customer enquiry and complaint handling processes mandated by the Water Retail Code.

¹⁶ IVR refers to an Integrated Voice Response, an automated system used for answering telephone calls.

The Commission will use a combination of the number of complaints reported by water retailers and the number of complaints handled by the Industry Ombudsman as an indicator as to how well water industry entities are responding to customers' needs. The monitoring of this indicator has proven particularly important in the energy industry; amongst other things it has enabled early warning of systemic issues.

Separate initial service standards for timeliness of response to any complaint requiring a written response or investigation and timeliness of response to water quality complaints has been set (refer discussion on OP1.3 and OP1.4 below).

This indicator (OP1.2) is reported annually under the National Performance Framework. Water Industry Guideline No.2 will require quarterly reporting by SA Water, to enable close monitoring of each complaint category.

Consistent with the National Performance Framework (albeit with some augmentation), reporting on the following customer complaint categories by water industry entities is required:

- ▲ billing and account complaints (water and sewerage/CWMS);¹⁷
- ▲ water service complaints;
- ▲ drinking water flow rate or pressure complaints;¹⁸
- ▲ drinking water quality complaints;
- ▲ sewerage service complaints (including CWMS);
- ▲ other; and
- ▲ total water and sewerage (including CWMS) complaints.

As indicated, complaints associated with CWMS will be grouped with the relevant sewerage complaint category. This general approach will be adopted in relation to other operational proformas, noting that the definition of sewerage services under the WI Act includes CWMS.

In order for the Commission to be in a position to concentrate on a limited number of key service standards, the Commission is not proposing to require water industry entities to meet a water flow rate standard, even though some water industry entities may have established their own standards. By having this as a separate complaint category, the Commission can monitor over time the extent to which customers have concerns in this area. Some guidance is provided in Water Industry Guideline No.2 on how these guideline indicators match to the relevant indicators reported under the National Performance Framework (**NPF**) definitions handbook.

The Commission is not requiring that complaint categories be reported by region (i.e. Adelaide metropolitan vs regional (country)) for this measure (OP1.2). Energy entities to date have not been required to report the level of complaints on a regional basis.

¹⁷ CWMS refers to Community Wastewater Management Systems. CWMS (formerly STEDS) provide approximately 10% of all public wastewater services in South Australia, servicing around 130,000 South Australian residents (source: <http://www.lga.sa.gov.au/site/page.cfm?u=1792>)

¹⁸ Included within *water service complaints* in the National Performance Framework complaint categories.

This performance measure will not be disaggregated according to type of customer (e.g. residential vs non-residential), as the additional benefit is not seen to warrant the additional cost at this time. Energy retailers were not required to report the level of complaints on a customer type basis under the Commission's Energy Retailer Operational Performance Information, Energy Industry Guideline No.2-EG2/03) (**Energy Industry Guideline No.2**)¹⁹, although the Australian Energy Regulator (**AER**) will require reporting by residential and small business categories under the National Energy Customer Framework.²⁰

The complaint performance of water retailers will be compared by deriving a figure of "complaints per 100 customers" for each retailer, to assist in identifying any retailer that may warrant closer scrutiny.

5.1.3 *Timeliness of response to complaints (OP 1.3)*

It is important that customers receive timely responses to any complaints they may have, in accordance with the implementation of Commission-approved customer enquiry and complaint handling processes mandated by the Water Retail Code, as follows:

Customer complaints and dispute resolution procedures must deal with at least the following matters:

- (a) *how complaints may be notified by customers;*
- (b) *the handling of complaints for both customers and tenants brought within the definition of customer by regulations;*
- (c) *response times for complaints;*
- (d) *method of response (for example, in writing);*
- (e) *referral to the industry ombudsman scheme where the complaint is not satisfactorily resolved; and*
- (f) *any other matter required by the Commission.*²¹

A retailer will be able to provide an immediate response to a large number of customer complaints received, where the customer is making the complaint face-to-face or via telephone contact. However, this may not always be possible, such as where a complaint:

- ▲ has been made in writing; and/or
- ▲ requires some investigation before a response can be provided.

The service standards allow the retailer a longer response time for those complaints requiring investigation.

The standard permits a written complaint to be responded to either in writing or by telephone. The complaint requiring investigation may be delivered by the customer either

¹⁹ Note that energy retailers ceased being required to report under Energy Industry Guideline No.2 on the commencement of the National Energy Customer Framework (NECF), which commenced in South Australia on 1 February 2013.

²⁰ Australian Energy Regulator, *AER (Retail Law) Performance Reporting Procedures and Guidelines*, June 2012; available at <http://www.aer.gov.au/sites/default/files/D12%2090627%20%20AER%20Performance%20Reporting%20Pr ocedures%20and%20Guidelines%20-%20June%202012.pdf>

²¹ Essential Services Commission, *Water Retail Code-Major Retailers (WRC-MR/01)*, November 2012, clause 3.2.2; available at <http://www.escosa.sa.gov.au/library/121116-WaterRetailCode-MajorRetailers>

verbally (i.e. face-to-face or via telephone) or in writing and can be responded to either in writing or by telephone.

Whilst it is noted that there is no comparable National Performance Framework performance measure, under the Commission's Energy Industry Guideline No.2 energy retailers were required to report on timeliness in responding to written enquiries, which includes complaints. It is considered that the proposed complaint standards will be important in ensuring an appropriate level of retailer responsiveness to issues raised by customers.

For both complaint standards, where the complaint cannot be resolved within the set timeframes, "responded to" means the customer has at least been advised of the retailer's suggested course of action, identified when the action will be taken and the name of the appropriate contact person for further enquiries. Refer to next section for further discussion on the definition of "respond" or "response", which is defined in the glossary to the Guideline.

The Commission is not requiring that complaint categories be reported by region (i.e. Adelaide metropolitan vs regional (country)) for this measure (OP1.2). To date, SA Water has not collected complaint responsiveness performance separately for metropolitan and regional areas. Energy entities have not been required to report their performance on a regional basis.

This performance measure will not be disaggregated into separate types of water and sewerage services. The Customer Complaints measure (OP1.2) records the level of complaints received by whatever medium (i.e. written or verbal) and that measure is disaggregated into key categories.

Finally, this performance measure (OP1.3) will not be disaggregated according to type of customer (e.g. residential vs non-residential), as the additional benefit is not seen to warrant the additional cost at this time.

5.1.4 Timeliness of response to water quality complaints (OP 1.4)

The quality of drinking water has clear health implications and any risk to human health needs to be addressed in a timely manner.

The Department of Health has responsibility for ensuring compliance with quality of water guidelines which it has established; the Commission has no regulatory remit in that area. Rather, the Commission's role is in ensuring compliance with service standards it has established for economic regulation purposes, with an initial service standard set requiring differing response times to customer complaints concerning water quality depending on the potential severity or priority of the issue.

The Commission has accepted advice from SA Water that having the complaint responded to is most important for the customer, with the customer asked a series of questions by the SA Water operator at the time of raising the complaint to ascertain the seriousness of the issue. In addition, any attendance may not be at the customer's house but at the source of any issue (e.g. the affected water source may be a considerable distance away from the customer).

The Commission has adopted the following definition of what constitutes a valid response by a retailer, contained in the glossary to Water Industry Guideline No.2:

respond or response means an action to resolve a **water service complaint, sewerage service complaint** or other **complaint** by communicating with the **customer** by phone or personal attendance dependent on the appropriate action required to resolve the issue. Where the complaint cannot be resolved within the set timeframes, “responded to” means the customer has been advised of the **retailer’s** suggested course of action, identified when the action will be taken and the name of the appropriate contact person for further enquiries.

There is no comparable National Performance Framework performance measure. Some energy distributors are required to report on quality of supply (voltage variation) and make customer compensation payments for voltage variation, but the South Australian electricity distributor (SA Power Networks²²) does not have a service standard relating to timeliness of site attendance.

The Commission is requiring that this measure be reported by region (i.e. Adelaide metropolitan vs regional), given that different standards have been set for each region, reflecting historical performance.

This measure will not be disaggregated according to type of customer (e.g. residential vs non-residential), as the additional benefit is not seen to warrant the additional cost at this time.

5.1.5 Timeliness of connection (OP 1.5)

Customers seeking to be connected to water and/or sewer services should achieve connection in a timely manner. Accordingly, service standards for connection that vary according to complexity (i.e. standard or non-standard) and type of service have been set for SA Water.

There is no comparable National Performance Framework performance measure. SA Power Networks is required to make a Guaranteed Service Level payment where electricity is not connected to a property within the set timelines.

The Commission does not require this measure be reported by region (i.e. Adelaide metropolitan vs regional) as the service standard is the same for both areas, and with a standard of 95% it would be difficult for a retailer serving both areas to allow service to deteriorate much below this standard in the regional area alone before it would fail to be met for the operation as a whole. However, this matter will remain under review and if deemed warranted the Commission may adopt reporting on a regional basis.

This measure will not be disaggregated according to type of customer (e.g. residential vs non-residential), as the additional benefit is not seen to warrant the additional cost.

²² SA Power Networks formerly trading as ETSA Utilities.

5.1.6 Trade Waste applications (OP 1.6)

Whilst water retailers have discretion as to whether they allow the discharge of trade (non-residential) waste into their system, customers should still be confident that applications to do so will be handled in a timely manner.

The Commission does not require this measure be reported by region (i.e. Adelaide metropolitan vs regional (country)). To date, SA Water has not collected complaint responsiveness performance separately for Adelaide metropolitan and regional areas.

5.1.7 Restrictions & legal action for non-payment (OP 2.1)

Restrictions of a customer's water supply should be the last resort for a retailer attempting to recover debt. Customers should not have their water services restricted solely due to incapacity to pay. It is understood that the water industry has generally experienced relatively low rates of service restrictions.

Major Retailers may restrict water supply, but will not be permitted to restrict sewerage services, where a customer fails to pay its bills on an ongoing basis and is not participating in a Hardship Program providing specified Water Retail Code provisions have been met. The Water Retail Code places other prohibitions on water service flow restrictions. In addition, SA Water will not be permitted to impose a water restriction (i.e. fit a flow restriction device) where it is pursuing debt recovery through other means (i.e. legal/collection action), or vice versa. That is, SA Water cannot pursue both flow restriction and collection action at the same time.

The Commission proposes to require reporting on the number of restrictions and legal actions applied by water industry entities.

It is not required that this measure be reported by region (i.e. Adelaide metropolitan vs regional (country)). Energy entities to date have not been required to report their performance on a regional basis.

This performance measure is required to be disaggregated according to type of customer (e.g. residential vs non-residential), as in this case additional benefit is seen to warrant the additional cost. Of note, it is important to be able to separately monitor the level of restrictions applying to residential customers, particularly as Hardship protections only apply to residential customers. Energy retailers were required to report their performance on a customer type basis under the Commission's Energy Industry Guideline No.2.

The AER will require energy retailers to report additional customer categories of hardship program, energy concession, residential customers who have been on a payment plan in the previous 12 months and residential customers who have been disconnected on more than one occasion in the previous 24 months.²³ In relation to the last three indicators, similar indicators were included in an earlier version of the Commission's Energy Industry Guideline No.2 but were subsequently removed, in part as reliance could not be placed on the data

²³ Australian Energy Regulator, *AER (Retail Law) Performance Reporting Procedures and Guidelines*, June 2012, Version 2; available at <http://www.aer.gov.au/sites/default/files/D12%2090627%20%20AER%20Performance%20Reporting%20Pr ocedures%20and%20Guidelines%20-%20June%202012.pdf>

collected. The Commission also took the view that a purely statistical reporting approach to measuring the success or otherwise of a retailer's hardship program is not sufficient, and instead introduced an annual hardship program reporting requirement for energy retailers.²⁴

The Commission will monitor the appropriateness of introducing the equivalent of the energy retailer annual hardship statement, as part of future reviews of Water Industry Guideline No.2. In the interim, it is proposed that Proforma OP2.1 include additional categories for residential water restrictions applied for non-payment: financial hardship program, concession and tenant.

The Commission recognises that any reporting on tenants will represent a fundamental change for SA Water and depend on the timing and extent to which, if at all, tenants are prescribed to be customers. This is an example of a Water Industry Guideline No.2 transitional requirement, where the Commission might not expect such a specific indicator to be reported in the short term.

The potential for overlap within these categories is recognised, i.e. it is possible for one customer to receive a concession and be in a hardship program. Nevertheless, the statistics at this level should be feasible to collect, rather than the more complex interrelationships of the Energy Industry Guideline No.2 that failed to produce reliable data.

This indicator can be read as: of the total number of water restrictions applied to residential customers, a reported number were in a financial hardship program, received a concession and/or were a tenant. As noted, it is recognised that there may be some difficulty in retailers that only have a relationship with property owners (and hence landlords) to determine if a particular customer was a tenant. The Commission will liaise with the retailer on the requirements for reporting tenant information in such circumstances.

The level of reconnections/restriction removal occurring at the same premises in the same name within 7 days of restriction will also be monitored. The primary purpose is to determine the extent to which customers are able to resolve their issue quickly and return to full service. The adoption of "7 days" is to be consistent with the time period generally adopted for the energy sector.

5.1.8 Financial support measures (OP 2.2)

The Commission will monitor the number of customers facing hardship, noting that the WI Act requires each retailer to adhere to a hardship program, with the Water Retail Code incorporating hardship provisions (clause 9).

This indicator is required to be reported by region (i.e. Adelaide metropolitan vs regional (country)). Given SA Water already separately collects the data it is considered sensible to continue, given there are significant numbers of regional customers participating in hardship programs.

The measures required to be reported will allow the Commission to monitor the number of customers facing hardship and how well they are assisted by a retailer. The measures

²⁴ Commission, *Review of Energy Regulatory Information Energy Industry Guideline No.2-Final Decision*, June 2010; available at <http://www.escosa.sa.gov.au/library/100618-EnergyGuidelineNo2Review-FinalDecision.pdf>

concentrate on residential customers (other than for instalment plans) as they are the only group being targeted for such assistance. Average bill debt for hardship customers will be monitored over time, with any material increases indicating a potential cause for concern.

Major Retailers are required to report on the number of customers on instalment plans. The purpose of this measure is to distinguish between hardship customers and those utilising the 'flexible payment plans' under clause 24.1 of the Water Retail Code. Short term payment extensions, such as extension of time or pay half now and half in two weeks, should not be included in the data reported.

The number of customers on a water concession and the number on a sewerage concession will be sought, noting that the State Government provides a separate concession for each. As the State Government also provides concessions to tenants, care will need to be taken to supplement details of the number of concession holders reported under Water Industry Guideline No.2 from other sources (e.g. Department for Communities and Social Inclusion) where the retailer is not able to provide this information for reasons such as not having a contractual relationship with tenants.²⁵

The AER is proposing to apply some 13 separate financial hardship indicators for energy retailers.²⁶ The Commission is proposing to rely on a relatively small number of indicators, at least initially. As indicated above, the Commission will monitor the appropriateness of introducing the equivalent of the energy retailer annual hardship statement, as part of future reviews of Water Industry Guideline No.2. This may be required if water price increases result in a level of water restrictions being imposed for non-payment comparable to the level of disconnections occurring in the energy industry.

5.1.9 Price Movements (OP 2.3)

Price movements provide a potential indicator of financial stress, particularly if large increases are occurring over time.

The proposed indicators draw on the National Performance Framework indicators of "typical residential bill" and "residential bill for a fixed consumption of 200 kL".

Monitoring changes in bills for a fixed consumption over time effectively monitors movements in prices.

In the case of the typical residential bill, changes are likely to be occurring in both consumption and price, so this measure attempts to monitor changes in the bill paid by the average residential customers (i.e. the customer with average consumption).

It is proposed that this measure be reported by region to enable changes over time to be monitored. For example, any changes in community service obligation payments could result in regional bills changing at a different rate than metropolitan counterparts.

²⁵ Details of concessions provided by the South Australian Government for water and sewerage are available at: <http://www.dcsi.sa.gov.au/pub/tabId/209/itemId/427/moduleId/795/Water-and-sewerage-rates.aspx>

²⁶ Australian Energy Regulator, *AER (Retail Law) Performance Reporting Procedures and Guidelines*, June 2012, page 24; available at <http://www.aer.gov.au/sites/default/files/D12%2090627%20%20AER%20Performance%20Reporting%20Pr ocedures%20and%20Guidelines%20-%20June%202012.pdf>

Requiring only annual reporting should result in minimal additional costs for Major Retailers which is required to report on a similar basis under the National Performance Framework.

The Commission's Energy Industry Guideline No.2 also required energy retailers to provide data on revenue from sales by energy and customer type. This enabled a gross average revenue (proxy for price) to be determined. However, in the case of the water industry, it is proposed to only monitor price movements in terms of the above metrics and not require retailers to provide gross revenue data. The Water Industry Guideline No. 2 indicators are considered to provide a better indication of price movements and would avoid any potential concern of Major Retailers in providing potentially commercially sensitive revenue information through the Water Industry Guideline No.2.

5.1.10 Water infrastructure reliability (OP 3.1)

There are a range of indicators for monitoring the reliability of water infrastructure, a number of which are reported routinely under the National Performance Framework (**NPF**).

The water infrastructure reliability measures in Water Industry Guideline No.2 draw on the NPF indicators.

At least in the initial period these indicators will not be subject to service standards.

The Commission is requiring these indicators to be reported by region (i.e. Adelaide metropolitan vs regional), to enable any differences in performance to be monitored over time.

SA Water has advised that it is not currently in a position to report a number of the reliability measures and for the categories required. For example, SA Water currently is not able to report reliability measures for non-drinking infrastructure. The Commission has accepted SA Water's position and at this time is not requiring non-drinking infrastructure to be reported. However, the Commission will continue to monitor this issue and may decide to require non-drinking infrastructure to be reported if issues arise. SA Water has advised the Commission that it is, however, able to report reliability measures for recycled water infrastructure.

In relation to the infrastructure leakage index (**ILI**), SA Water advises that it only calculates this measure for Adelaide metropolitan and the large regional townships (Murray Bridge, Mt Gambier, Port Lincoln, Port Pirie, Port Augusta and Whyalla). SA Water further advises that the majority of mains in regional areas outside of larger regional townships would have a lower ILI than urban areas given that such mains:

- ▲ are largely above ground (major pipelines) and therefore any leakage is readily observed and repaired;
- ▲ have a very low service connection density (number of service connections per length of main); and
- ▲ generally have lower pressure than urban areas (and therefore smaller losses).

SA Water has determined it is more appropriate for ILI to be calculated on discrete systems, on a risk-basis, rather than in aggregation. On this basis, SA Water has not installed the master meters that would be necessary to determine leakage on a broader scale. Nevertheless, SA Water has advised the Commission that this metric as reported by

SA Water will cover 78% of its customer connections. The Commission is prepared to accept the SA Water position in relation to this metric, subject to review once it gains experience in monitoring SA Water's performance in this area.

The Commission is not requiring the reporting of these measures be disaggregated according to type of customer (e.g. residential vs. non-residential), as the additional benefit is not seen to warrant the additional cost.

5.1.11 Timeliness of attendance at water bursts & leaks (OP 3.2)

An important factor in minimising supply outages is the timeliness of a retailer attending bursts and leaks.

There is no comparable National Performance Framework performance measure while some energy distributors face guaranteed service level (**GSL**) payments, the level of which varies according to the duration of loss of supply.

SA Water has informed the Commission that for the OP3.2 & OP3.3 measures that recycled water is not included in the data reported. The Commission accepts this position as a transitional arrangement due to the age of the assets. However, the Commission will work with SA Water in order to implement the necessary systems and procedures to enable them to report these measures in a timely manner.

The Commission is requiring that this measure be reported by region (i.e. Adelaide metropolitan vs regional), given that different standards have been set for each region, reflecting historical performance.

This performance measure will not be disaggregated according to type of customer (e.g. residential vs non-residential), as the additional benefit is not seen to warrant the additional cost. The Commission's Electricity Industry Guideline No.1 does not require distributors to report similar measures by type of customer affected.

5.1.12 Timeliness of water service restoration (OP 3.3)

An important factor in minimising the impact of supply outages is the timeliness of a retailer in restoring services.

There is no comparable National Performance Framework performance measure and some energy distributors face GSL payments, the level of which varies according to the duration of loss of supply.

The Commission is requiring that this measure be reported by region (i.e. Adelaide metropolitan vs regional), given that different standards have been set for each region, reflecting historical performance.

This performance measure will not be disaggregated according to type of customer (e.g. residential vs non-residential), as the additional benefit is not seen to warrant the additional cost. The Commission's Electricity Industry Guideline No.1 does not require distributors to report similar measures by type of customer affected.

5.1.13 Sewerage infrastructure reliability (OP 3.4)

The water infrastructure reliability measures in Water Industry Guideline No. 2 draw on the NPF indicators.

At least in the initial period these measures will not be subject to service standards.

The Commission is requiring these measures to be reported by region (i.e. Adelaide metropolitan vs regional), to enable any differences in performance to be monitored over time.

5.1.14 Timeliness of sewerage service restoration (OP 3.5)

An important factor in minimising the impact of supply outages is the timeliness of a retailer in restoring services.

There is no comparable National Performance Framework performance measure and some energy distributors face GSL payments, the level of which varies according to the duration of loss of supply.

The Commission is requiring that this measure be reported by region (i.e. Adelaide metropolitan vs regional), given that different standards have been set for each region, reflecting historical performance.

This performance measure will not be disaggregated according to type of customer (e.g. residential vs non-residential), as the additional benefit is not seen to warrant the additional cost. The Commission's Electricity Industry Guideline No.1 does not require distributors to report similar measures by type of customer affected.

5.1.15 Timeliness of sewerage overflow attendance (OP 3.6)

An important factor in minimising the impact of sewerage or effluent overflow is the timeliness of a retailer in attending to overflow events.

There is no comparable National Performance Framework performance measure and some energy distributors face GSL payments, the level of which varies according to the duration of loss of supply.

The Commission is requiring that this measure be reported by region (i.e. Adelaide metropolitan vs regional), given that different standards have been set for each region, reflecting historical performance.

This performance measure will not be disaggregated according to type of customer (e.g. residential vs non-residential), as the additional benefit is not seen to warrant the additional cost. The Commission's Electricity Industry Guideline No.1 does not require distributors to report similar measures by type of customer affected.

5.1.16 Timeliness of sewerage overflow clean up (OP 3.7)

An important factor in minimising the impact of sewerage or effluent overflow is the timeliness of a retailer in cleaning up any overflow events.

The Commission is requiring that this measure be reported by region (i.e. Adelaide metropolitan vs regional), given that different standards have been set for each region, reflecting historical performance.

This performance measure will not be disaggregated according to type of customer (e.g. residential vs non-residential), as the additional benefit is not seen to warrant the additional cost. The Commission’s Electricity Industry Guideline No.1 does not require distributors to report similar measures by type of customer affected.

5.1.17 Customer Numbers (OP 4.1(a))

The Commission will require the reporting of a range of statistical information, covering customer numbers, sales and assets.

The Commission will require the reporting of customer number statistics for a number of reasons, including:

- ▲ to ascertain the scale of the retailer operations; and
- ▲ to enable many of the performance measures to be placed in terms of “per 100 customers”, allowing performance to be more readily compared across water industry entities and for a given retailer over time.

Customer numbers will be sought for each type of retail service.

In the energy industry, customers numbers are often defined in terms of NMI (National Metering Identifier) or MIRN (Meter Installation Registration Number), effectively recording the number of meters. Given a competitive market with transfer systems in place the NMI and MIRN represent the basic “building block” for electricity or gas respectively.

Table 2 Comparison of SA Water billed customer numbers vs connected properties (Adelaide metropolitan)

	2006/07	2007/08	2008/09	2009/10	2010/11
National Performance Reporting (NPR) connected residential properties ('000s)	475	481	487	494	502
SA Water residential drinking water account holders ('000s)	463	467	474	481	488
Percentage difference (%)	3%	3%	3%	3%	3%
NPR connected non-residential properties ('000s)	29	29	29	30	30
SA Water non-residential drinking water account holders ('000s)	29	29	30	30	31
Percentage difference (%)	0%	0%	3%	0%	3%

In the absence of a competitive market at this time, the National Performance Framework provides a potential definition, defining customers in terms of connected properties. SA Water, however, routinely reports customer numbers in terms of account holders,

undertaking a special exercise annually to report in terms of connected properties for the National Performance Framework.

Data provided by SA Water shows that the number of residential connected properties generally exceeds account holders by 3%, on a consistent basis, as shown in Table 2. The relationship between the two measures is even closer for non-residential customers.

In addition, account holder is the only definition possible for sewerage services, as this service is not metered.

For at least the initial regulatory period the Commission will define customers in terms of account holder for each type of retail service, which will enable “per 100 customer” metrics to be developed on a quarterly basis.

5.1.18 Sales (OP4.1(b))

There is a range of potential statistics available on volume of water services including:

- ▲ volume of water sourced (e.g. from surface water, groundwater or desalination);
- ▲ volume of water received (e.g. from bulk supplier);
- ▲ volume of water exports (e.g. bulk water); and
- ▲ volume of water supplied (e.g. drinking water supplied to urban residential customers).

The Commission will monitor various aspects of retail water services and require the reporting of the “volume of water supplied” by various categories (OP4.1(b)).

From the data received, the Commission will monitor trends in overall consumption by types of water (e.g. drinking water, non-drinking water), and by types of customer (e.g. residential and non-residential). Combined with the customer number data (OP4.1(a)), trends in average consumption across these categories can also be monitored.

The key customer types are residential and non-residential.

Proforma OP4.1(b) also makes provision for reporting of any sales of urban stormwater, given that the National Performance Framework definition of recycled water specifically excludes urban stormwater use.

In relation to recycled water and urban stormwater, the assumption used is that it is not intended as drinking water, but this assumption will be checked from time to time with the relevant retailer.

The Commission is not requiring the reporting of the volume of sewage supplied to other infrastructure operators or the volume of water supplied for environmental flows as, once again, the focus of Water Industry Guideline No. 2 and the Water Retail Code is on end use customers.

5.1.19 Assets (OP4.1(c))

The Commission requires a range of asset statistics be reported for a number of reasons through OP4.1(c), including:

- ▲ indication of the size of the retailer’s operation; and
- ▲ to enable many of the performance measures to be placed in terms of “per 100 km of mains”, to allow performance to be more readily compared across water industry entities and for a given retailer over time.

5.1.20 Miscellaneous (OP4.1(d))

OP4.1(d) will be used to request miscellaneous statistics to assist in monitoring the application of the Water Retail Code, such as the number of registered life support equipment addresses.

6. PROFORMA REGULATORY AUDIT REPORT (ANNEXURE A)

The Commission requires an audit of the regulatory accounting statements which will give reasonable assurance that the regulatory accounting statements have been prepared in accordance with the Guideline and fairly present the financial position and results of the retailer. The auditor's report shall be in the form specified in Annexure A in the Guideline; however, the Commission will allow minor deviations from the specified format.

The Commission requires an audit providing reasonable assurance on the accuracy of the regulatory accounting statements, and a review of the regulatory accounting statements is not sufficient. The audit report will also be prepared for the Commission rather than the retailer.

7. RESPONSIBILITY STATEMENT (ANNEXURE B)

In order for the Commission to have confidence in the integrity of the data, formal sign-off of the data by a senior officer, to the level specified, is required. The Responsibility Statement is the mechanism by which this formal sign-off is provided.

Annexure B provides two responsibility statements that must be signed off by a senior officer. The first responsibility statement relates to data reported for financial reporting and the second responsibility statement relates to operational reporting.

The operational reporting Responsibility Statement also makes provision for explanation for any variation or failure to meet the service standard and in the event of failure to meet the service standard, how and when the retailer intends to improve performance to meet the service standard.

8. GLOSSARY

The Glossary provides key definitions used in Water Industry Guideline No.2. For avoidance of doubt, unless specified to the contrary in the Guideline, where a definition for a data item in the Operational Proformas is provided in the NPF Definitions Handbook,²⁷ the "NPF definitions handbook" definition applying at the time of completion of the Guideline report will apply to the exclusion of any other definition contained in Water Industry Guideline No.2. This aims to avoid retailers reporting under the NPF being required to collect and report on the basis of multiple definitions for the same metric.

²⁷ For example, refer to National Water Commission, *2011-12 National Performance Framework Urban performance reporting indicators and definitions handbook*, June 2012; available at: <http://nwc.gov.au/publications/topic/urban/handbook-2011-12>



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