

Consultation on Draft Regulatory Information Requirements for Intermediate and Minor Water Retailers - April 2013

The Essential Services Commission of South Australia (**the Commission**) is consulting on the draft Water Industry Guideline No.3 (version WG3/01) that sets out information reporting requirements to apply to all intermediate and minor water retail licensees. A similar guideline has been developed for major licensees (currently only SA Water).

REQUEST FOR SUBMISSIONS

The Commission welcomes comment from all interested parties on the draft amendment to Water Industry Guideline No.3 and will consider all submissions in finalising this Guideline. Comments are required by COB 15 May 2013.

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

BACKGROUND

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

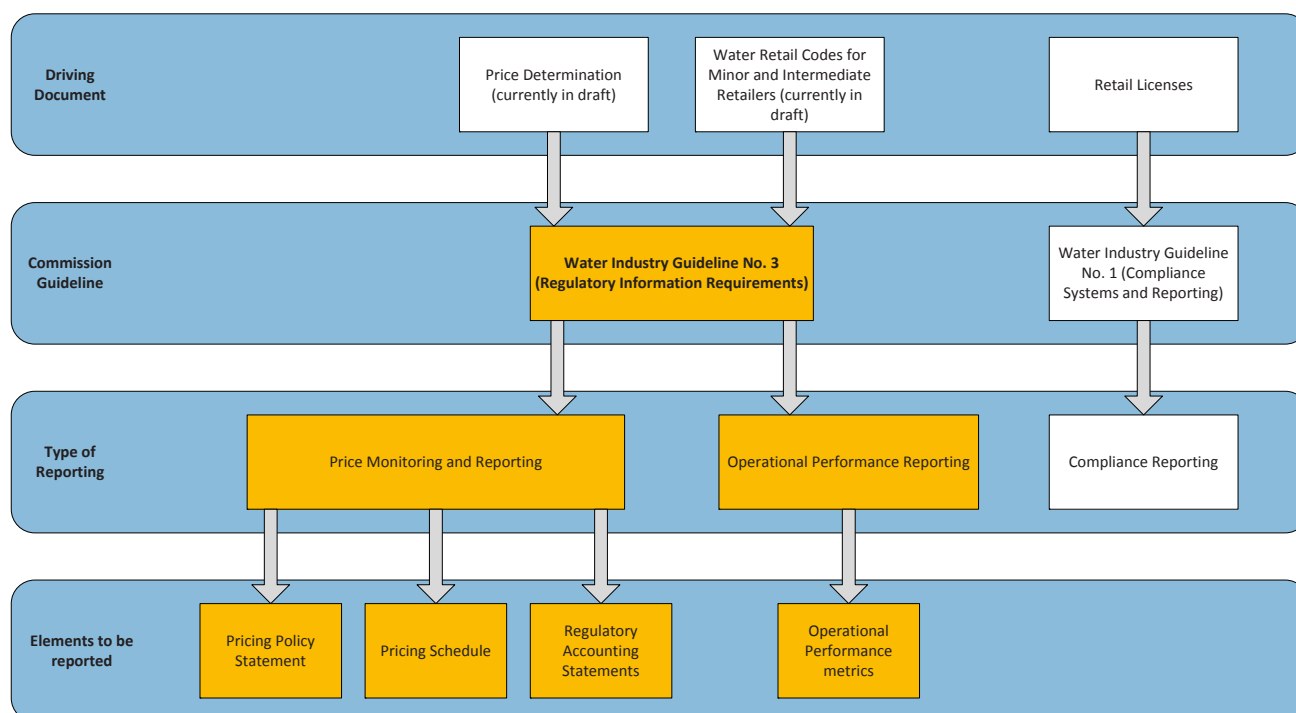
consumer protection, performance monitoring, compliance and retail pricing matters.

This fact sheet has been prepared to accompany the release of the draft Water Industry Guideline No.3 which provides for the reporting of operating performance and financial information. The Guideline includes proformas to be used to report required information to the Commission.

Water Industry Guideline No.3 does not deal with the reporting of compliance by a licensee. That is dealt with separately by the Commission's Compliance Systems and Reporting Guideline (Water Industry Guideline No.1).

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

Reporting Framework for Intermediate and Minor Retailers



DEVELOPING REGULATORY REPORTING REQUIREMENTS

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

In this initial phase of implementing a regulatory framework for the South Australian water industry, the extent of individual licensee’s reporting requirements will be determined by the size of the entity’s customer base. This is consistent with the licensing provision 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.’

In developing the Guideline, the Commission has drawn on reporting requirements that have existed for other South Australian regulated industries, reporting requirements for water businesses in other Australian jurisdictions, and the National Water Initiative (NWI) National Performance Framework. The Commission has worked with a sample of councils and private water businesses in developing this Guideline.

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

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

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

RATIONALE FOR INFORMATION REQUIREMENTS

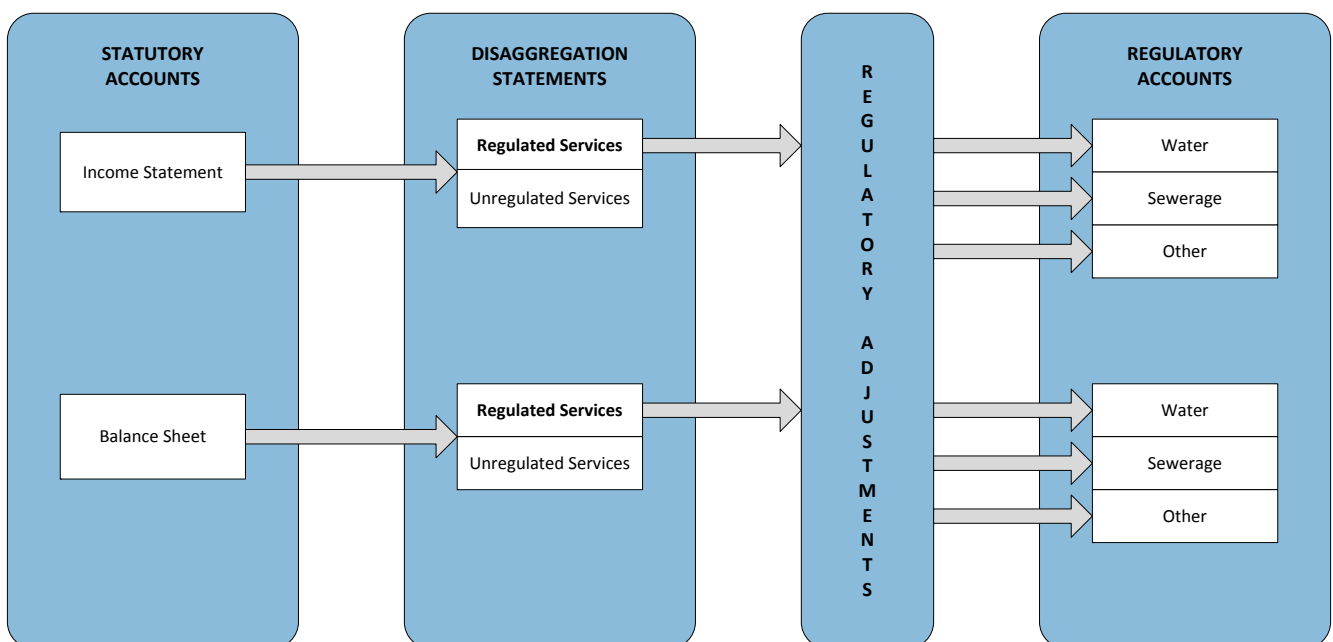
The Commission’s focus during the initial regulatory period (from 1 July 2013 to 30 June 2017) is to develop a clear understanding of the current financial and operational performance of intermediate and minor retailers and how these licensees set prices and recover the cost of water and sewerage services.

The key reasons for the information reporting requirements in the Guideline include:

- Providing evidence that licensees are applying the NWI pricing principles in that cost recovery is appropriate and that there are no cross subsidies between water and sewerage services;
- Ensuring that pricing information is transparent for customers;
- The Commission proposes to report on retailers’ performance and pricing outcomes in its South Australian Water Industry Annual Performance Report. Public reporting provides customers information about the level of service they are receiving and helps identify reasons for any poor performance; and
- Whilst the Commission is not proposing to introduce any service standards or targets for minor and intermediate retailers initially, performance will be monitored to establish the need for service standards. Consideration of this matter will occur in further consultation with stakeholders during the first regulatory period (1 July 2013 to 30 June 2017).

FINANCIAL REPORTING REQUIREMENTS

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



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

Statutory Accounts (FR1.1 & FR2.1)

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

Disaggregated Statements (FR1.2, FR2.2 & FR2.4)

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

It is anticipated that the process of disaggregation will require licensees to apportion certain corporate overheads to the regulated water business. This should be done in accordance with the allocation principles in the Guideline.

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

Regulatory Adjustments (FR1.3 & FR2.3)

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

The Commission does not expect that intermediate and minor licensees will need to make regulatory adjustments to derive Regulatory Accounting Statements, however, the Guideline includes instances in which the Commission may require regulatory adjustments.

Regulatory Accounting Statements (FR1.4 & FR2.5)

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

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

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

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

Pricing Schedule and Pricing Policy Statement

The Draft Price Determination for Intermediate and Minor Retailers specifies that licensees must maintain:

- a Pricing Schedule containing the prices, fees and charges for water and sewerage services imposed by the licensee;
- a Pricing Policy Statement to demonstrate how the Commission's pricing principles have been applied in determining the licensees' water and sewerage prices

Other Information

The Commission requires a Director Responsibility Statement to accompany information reported under the Guideline. The Commission is not proposing to require intermediate and minor licensees to procure an audit of their Regulatory Accounting Statements.

OPERATING PERFORMANCE REPORTING REQUIREMENTS

Part C of the Guideline refers to proposed operational performance requirements and includes proformas to be completed and reported to the Commission annually. The Commission is keen to receive feedback on these proposed requirements. The sections below provide a summary of the requirements of each proforma in the Guideline.

Timeliness of response to telephone calls (OP1.1)

As water is an essential service customers should have access to reasonable telephone responsiveness from their retailer. While the Commission is not proposing to introduce telephone responsiveness as a service standard for intermediate and minor retailers initially, collecting data on this measure will allow the Commission to report on performance and assist in determining whether a service standard should be set.

The Commission understands that intermediate and minor retailers may not currently have systems in place to report on telephone calls received regarding its water retail business from telephone calls received regarding other services.

Customer complaints (OP1.2)

The level of complaints and how well they are handled is an indication of the level of customer service being provided by a licensee, and allows the Commission to monitor licensees' compliance with the Commission-approved customer enquiry and complaint handling processes mandated by the Water Retail Codes.

Restrictions & legal action for non-payment (OP2.1)

Restrictions of a customer's water should be the last resort for a licensee attempting to recover debt. Customers should not have their water services restricted or disconnected due to incapacity to pay alone. It is understood that retailers do not apply sewerage restrictions for non-payment.

The Commission recognises that licensees may not be able to report on the number of tenants facing restrictions or legal action during the transitional period. The Commission will liaise with licensees on the reporting of this measure.

Financial support measures (OP2.2)

The Commission wishes to monitor the number of customers facing hardship, noting that the Water Retail Code requires each licensee to adhere to a hardship program.

Measures have been proposed to monitor the number of customers facing hardship and how well they are assisted by water industry entities. The measures proposed concentrate on residential customers as they are the primary group being targeted for assistance. It is proposed that average bill debt for hardship customers be monitored over time, with any material increases indicating a potential cause for concern.

Price movements (OP2.3)

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

Changes in the amounts paid by customers reflect both consumption and price movements, so the typical residential bill measure attempts to monitor changes in the bill paid by an average residential customer (i.e. a customer with average consumption).

Water and sewerage infrastructure reliability (OP3.1 & OP3.2)

Several infrastructure reliability measures will be monitored to determine the appropriateness of developing service standards in future. For example, the Commission proposes to collect data on the number of service outage events. If licensees report a high number of events it may become appropriate to introduce service standards for the timeliness of water service restoration (as exist for major retailers).

Statistical Information (OP4.1)

It is proposed to collect a range of basic statistical information, covering customer numbers, sales, assets and connection numbers. The reasons for collecting such statistics include:

- indicating the size of the licensee operation to aid comparisons; and
- to enable many of the performance measures to be placed in terms of “per 100 customers”, to allow performance to be more readily compared across water industry entities and for a given licensee over time.

FURTHER INFORMATION

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

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