

WATER REGULATORY INFORMATION REQUIREMENTS FOR MINOR AND INTERMEDIATE RETAILERS

Water Industry Guideline No. 3 (WG3/03)

Explanatory Memorandum

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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. 3
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 (WG2/01)
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 – Minor and Intermediate 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 as a companion document to Water Industry Guideline No. 3 (version WG3/01) (Water Industry Guideline No. 3), which will apply to Minor and Intermediate Retailers.¹ This Explanatory Memorandum is intended to provide a plain English description of the provisions of Water Industry Guideline No. 3.

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. 3 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 Guideline relates to Minor and Intermediate Retailers only, i.e. retailers with up to 50,000 customers. There is a separate guideline for Major Retailers (those retailers with greater than 50,000 customers).³ 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.*'

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

A key outcome of financial performance reporting will be greater transparency of prices, the costs of providing water and sewerage services, and any subsidies being applied to those services. It will also provide evidence that retailers are applying the National Water Initiative (**NWI**) pricing principles.⁴

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

¹ Essential Services Commission, *Water Regulatory Information Requirements-Water Industry Guideline No. 3* (WG3/01), June 2013; available at <http://www.escosa.sa.gov.au/water-overview/codes-guidelines/water-guidelines.aspx>

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. 2; available at: http://www.escosa.sa.gov.au/library/121220-WaterIndustryGuidelineNo2_WG2_01.pdf

⁴ The NWI Pricing Principles were developed by the Commonwealth and State Governments and form the agreed basis for pricing of drinking and non-drinking water across jurisdictions. Refer <http://www.environment.gov.au/water/publications/action/nwi-pricing-principles.html>. The principles do not directly apply to sewerage services, although the Commission has decided that they are relevant to sewerage services and that the relevant principles will apply to sewerage services. Refer Final Decision, p.37

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

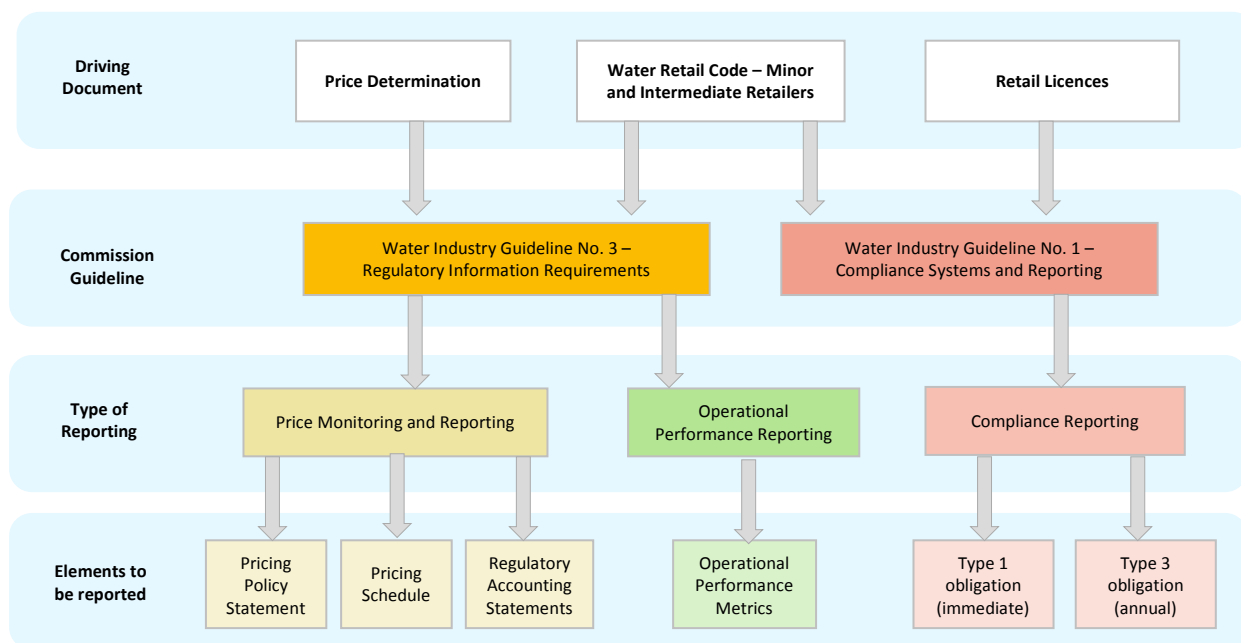
The data collected under this Guideline will form an important input into the Commission’s Water Industry Annual Performance Report.⁵ That Annual Performance Report, which will ultimately report on the performance of all water retailers, will provide South Australian consumers with information on the operation of the water industry – one of the functions of the Commission under section 5 of the Essential Services Commission Act (ESC Act).⁶

Water Industry Guideline No. 3 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**).⁷ Water Industry Guideline No.1 outlines the Commission’s expectations and requirements in relation to a retailer’s compliance system and compliance reporting arrangements.

Water Industry Guideline No. 3 will apply from 1 July 2013. Reporting timeframes are detailed in the Guideline, with Minor and Intermediate required to report annually.

Figure 1 below sets out how Water Industry Guideline No. 3 fits in with other Commission reporting obligations for Minor and Intermediate Retailers.

Figure 1: Reporting Framework for Minor and Intermediate Retailers



⁵ 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>

⁶ Refer sections 5(b), (c) and (d) of the ESC Act

⁷ 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.3 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 3 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 water and sewerage retail operations from other business activities of the retailer;
- ▲ Financial performance by activity – metrics to assess financial performance by activity, revenue source and business segment
- ▲ Assets by business segment – provides data to assess asset investments and return on assets
- ▲ Asset investment categories - provides further data to assess asset investments
- ▲ Water Retail Code – monitors the operation of sections of the Code;
- ▲ 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”);
- ▲ Transparency - provides clear pricing information (and how prices have been developed) to the public;
- ▲ NWI pricing principles – provides information on how the NWI pricing principles have been adhered to; 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	Statutory and regulated income statement	Ring Fencing
FR1.2	Regulatory income and operating cost analysis	Financial performance by activity
Assets		
FR2.1	Regulatory asset schedule	Assets by business segment
FR2.2	Additional regulatory capital expenditure analysis	Asset investment categories
Customer Service		
OP1.1	Customer complaints	Water Retail Code
Financial		
OP2.1	Restrictions and legal actions for non-payment	Water Retail Code
OP2.2	Financial support measures	Water Retail Code
Reliability		
OP3.1	Water infrastructure reliability	Operational reliability
OP3.2	Sewerage infrastructure reliability	Operational reliability
Statistical		
OP4.1	Statistical information	Statistical information
Price Monitoring		
PM1.1	Pricing schedule	Transparency
PM2.1	Pricing policy statement	Transparency
PM3.1	Pricing policy questionnaire	NWI pricing principles
Assurance		
Annexure A	Responsibility statement	Data integrity

2. PART A – PRELIMINARIES

Part A of the Guideline sets out preliminary matters.

2.1 *Nature of the Guideline*

Section 1 provides a preamble for the Guideline.

2.1.1 *Introduction (clause 1.1)*

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

2.1.2 *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.

2.1.3 *Application (clause 1.3)*

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

2.1.4 *Definitions and interpretations (clause 1.4)*

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

2.1.5 *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.

2.1.6 *Input from interested parties (clause 1.6)*

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

2.2 *General Principles of Preparation*

This section states the following requirements for providing information to the Commission.

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

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

2.2.2 *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.

2.2.3 *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.

2.2.4 *Responsibility Statement (clause 2.4)*

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

2.2.5 *Quality assurance requirements (clause 2.5)*

This clause sets out data quality assurance requirements required of retailers, including the ability of the Commission to require audits or independent assurance of any 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);

2.2.6 *Data Variation (clause 2.6)*

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

3. 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.

3.1 Principles of Preparation for Financial Performance Reporting

3.1.1 Accounting principles and policies (clause 3.1)

This clause sets out information on the election and disclosure of regulatory accounting principles and policies. Retailers are not expected to apply different accounting principles or policies than are applied to statutory accounts.

3.1.2 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 (also referred to as Regulated Services); it therefore requires retailers to separate (disaggregate) the transactions and balances relating to water and sewerage retail services from the rest of their operations. The Commission also requires retailers to allocate transactions and balances between different regulated business segments (drinking water, sewerage, non-drinking water) where the 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.

3.1.3 Allocation principles (clause 3.3)

This clause sets out the rules by which retailers 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 causation 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-casual 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.

3.1.4 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 which retailers must use to categorise amounts and balances. These headings are standardised (mandatory) as the Commission requires comparable information from all 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. Retailers 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.

3.1.5 Regulatory accounting periods (clause 3.5)

The reporting period should be the same as a retailer's statutory accounting period. Retailers are required to report to the Commission the financial reporting information in Schedule 1 within 5 months of the end of their financial year.

3.1.6 Books and records (clause 3.6)

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

3.1.7 Errors and omissions (clause 3.7)

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

3.2 Information Requirements for Financial Performance Reporting

3.2.1 Use of proformas to report information (clause 4.1)

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

3.2.2 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 statutory accounts which encompass the whole of the water and sewerage retail operations;
- ▲ 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 August each year (first submission due by 31 August 2014).

3.2.3 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), as per clause 3.2. Note that retailers are only required to disaggregate their income statement and certain asset information (as detailed in the Schedule 1 proformas).

3.2.4 Income (clause 4.4)

This clause requires retailers to disclose income according to the headings in the Schedule 1 proformas. As detailed in Schedule 1, where applicable, income should be split between residential and non-residential and between usage and other charges. Refer to the guidance notes below on proforma FR1.2 for further information on what income to include in each heading.

3.2.5 Costs (clause 4.5)

This clause requires retailers to disclose costs according to the headings in the Schedule 1 proformas. Refer to the guidance notes below on proforma FR1.2 for further information on what costs to include in each heading.

3.2.6 Capital expenditure (clause 4.6)

This clause requires retailers to disclose capital expenditure according to the headings in the Schedule 1 proformas. Refer to the guidance notes below on proforma FR1.2 for further information on what costs to include in each heading.

3.2.7 Asset information (clause 4.7)

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 FR2.1 and 2.2 for further information on what information to include in each heading.

3.3 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 that retailers record and report their financial information in a consistent way to ensure that the financial indicators for each retailer are comparable.

3.3.1 Statutory and Regulated Income Statement (FR 1.1)

Retailers must report the relevant Statutory Accounts that include all transactions and balances relating to the provision of all water and sewerage retail services.

For Councils, this will be the full Council Statement of Comprehensive Income based on the model financial statements prepared by the Local Government Association of South Australia (**LGA**).

Not all services provided by retailers are water and sewerage retail services as defined under section 4 of the WI Act and, consequently, the Commission has no regulatory powers over those services. The retailer must therefore separate out (disaggregate) amounts relating to the provision of water and sewerage retail services (regulated services) from all other services (non-regulated services).

The Commission understands that Councils are required to manage Community Waste Management Systems (**CWMS**) and drinking water schemes separately from the rest of Council activities and should account for all transactions and balances directly attributable to those schemes in a separate ledger.

Therefore, for a retailer that runs CWMS (and no other water retail schemes), regulated services will mainly comprise the CWMS business unit transactions and balances, which will be easily identifiable. However, unless already included in the CWMS account ledger, retailers will also be required to apportion an appropriate amount of corporate overheads to the regulated section. A list of the types of applicable corporate overheads to be allocated is included in section 3.3.2.3 of this document. The cost allocation should be undertaken in accordance with the allocation principles in the Guideline as summarised below:

- ▲ Amounts 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-casual 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 Commission anticipates that the disaggregation of the income statement will be relatively straight-forward for most retailers, although some work will be required to identify the corporate services that the CWMS or water unit access and the appropriate proportion of costs to allocate to the regulated section. However, the allocation methodology decided upon in the first year should be able to be applied to subsequent years with minimal adjustment.

The retailer will need to supply working papers to evidence the amounts included in the water and sewerage retail services (regulated services) income statement.

3.3.2 Regulatory income and operating cost analysis (Water & Sewerage Retail Services only) (FR 1.2)

Proforma FR1.2 of the Guideline sets out the classification of regulated income and operating costs required. Revenues and costs also need to be split by the regulated business segment to which they relate – drinking water, sewerage & trade waste, non-drinking water. Further guidance on this classification is supplied below.

Non-drinking water services include recycled water and stormwater retail services. Note that stormwater refers to the provision of captured stormwater as an alternative water source, not to stormwater services relating to drainage (as provided by most Councils).

3.3.2.1 Operating Income

Operating income must be allocated between regulated business segments – drinking water, sewerage and trade waste, non-drinking water - in accordance with the allocation principles detailed in clause 3.3 of Water Industry Guideline No. 3.

For operating income allocated to each regulated business segment, retailers must further analyse income by revenue source. The Commission requires water and sewerage charges split between:

- ▲ residential and non-residential; and
- ▲ usage charges and other charges (e.g. service charges).

Retailers are not required to allocate income to a revenue source which is not relevant to the retailer or regulated business segment.

The Guideline allows retailers to use additional (discretionary) headings if they will improve the users understanding of their business; however, there are rules in clause 3.4 on the use of discretionary headings.

3.3.2.2 Capital Income

Capital income refers to contributed assets, which are assets owned but not purchased by the retailer.

Capital income must be allocated between regulated business segments – drinking water, sewerage and trade waste, non-drinking water - in accordance with the allocation principles detailed in clause 3.3 of Water Industry Guideline No. 3.

For capital income allocated to each regulated business segment, retailers must further analyse income by revenue source. The Commission requires water and sewerage capital income split between:

- ▲ Amounts received specifically for new and upgraded assets:
 - ▲ Government contributions; and
 - ▲ Customer contributions.
- ▲ Physical resources received free of charge:
 - ▲ Government contributions; and

- ▲ Customer contributions.

Amounts received specifically for new and upgraded assets are also referred to as customer contributions or cash contributions. This is capital expenditure constructed by the retailer but funded by third parties (i.e. water or sewerage customers).

Physical resources received free of charge are also referred to as gifted assets or free assets. This is the value of assets that developers will fund and construct but gift to the retailer.

The income split is similar to that required by the Local Government Association's Model Financial Statements; therefore, many retailers will be familiar with this financial information presentation.

Further guidance on income categorisation will be provided as required.

3.3.2.3 Operating Costs

Operating costs must be allocated between regulated business segments – drinking water, sewerage and trade waste, and non-drinking water.

For operating costs allocated to each regulated business segment, retailers must further analyse operating costs by the following activity areas:

- ▲ operations and maintenance;
- ▲ bulk charges;
- ▲ treatment;
- ▲ customer service and billing;
- ▲ licence fees;
- ▲ corporate overheads;
- ▲ depreciation; and
- ▲ other operating expenditure.

Retailers are not required to allocate operating expenditure to an activity area which is not relevant to the retailer or regulated business segment.

The Guideline allows retailers to use additional headings if they will improve the users understanding of their business.

RECYCLED WATER AND STORMWATER SCHEMES

The Commission anticipates that some retailers may have difficulties in allocating operating costs between sewerage services and recycled water services where the retailer has built a reticulation network to provide recycled water from treated effluent from its CWMS network.

The NWI Pricing Principles for recycled water and stormwater use states that a beneficiary pays approach should be the starting point in cost allocation, but that specific cost shares

should be based on a scheme’s drivers. The NWI’s paper, *Pricing principles for recycled water and stormwater use*, includes information on allocation of costs between beneficiaries.⁸

The Final Price Determination for Minor and Intermediate Water Retailers states that operating costs should be allocated to the primary beneficiary (or beneficiaries).⁹ The table below summarises the requirements of the Final Price Determination relating to allocating operating costs between sewerage and recycled water customers in the scenario where a Council has installed a recycled water scheme as a means of meeting stricter environmental standards on effluent discharge.

SCENARIO	BENEFICIARY (TO WHICH OPERATING COSTS SHOULD BE ALLOCATED)	
	SEWERAGE	RECYCLED WATER
Recycled water scheme is lowest cost option to meet stricter environmental standards on effluent discharge	All costs allocated. Revenue from recycled water sales netted off against sewerage charges	No costs allocated
Recycled water scheme is <u>not</u> lowest cost option to meet stricter environmental standards on effluent discharge	Remainder of costs Some revenue from recycled water sales can be allocated to net off against sewerage charges (if deemed appropriate)	Allocate incremental recycled water scheme costs (over the least cost disposal solution) Recycled water revenue allocated (except where some is netted off against sewerage charges)

Note that, where a Council cannot in reality recover the costs identified as allocated to recycled water customers, the shortfall should be recovered from general rates by means of a transparent “payment”. It is important that costs are allocated appropriately, as detailed in the table above, to ensure transparent disclosure of the financial sustainability of water and sewerage services provided by retailers.

OPERATIONS AND MAINTENANCE

All direct and indirect operating expenditure associated with the operation and maintenance of the distribution network and the general physical provision of drinking water, sewerage (including trade waste), and non-drinking water services including costs associated with:

1. operating dams, reservoirs, bores, river intakes and associated works.
2. water transfer between storages and general catchment management activities.
3. pumping, repairing bursts, leaks and addressing spills.
4. treatment or disinfection that occurs within the distribution system.
5. staffing of monitoring and control centres.
6. logistics and stores.
7. IT costs directly attributable to the operation and maintenance of a network.

⁸ Refer <http://archive.nwc.gov.au/library/waterlines/31>.

⁹ Refer <http://www.escosa.sa.gov.au/library/130627-EconomicRegulationMinorIntermediateRetailers-FinalDecision.pdf>, p. 42.

8. SCADA.
9. labour costs.
10. plant and materials.

BULK CHARGES

All direct and indirect operating expenditure associated with the purchase of bulk services from other water businesses should be included in bulk charges, including costs associated with:

1. the purchase of bulk water from other water businesses.
2. the purchase of bulk sewerage services from other water businesses.

TREATMENT

All direct and indirect operating expenditure associated with the treatment of water and sewerage should be included in treatment, including costs associated with:

1. the treatment of water before it enters the distribution network.
2. the treatment and disposal of sewage and trade waste.
3. logistics and stores.
4. labour costs.
5. materials.

BILLING AND CUSTOMER SERVICE

All direct and indirect operating expenditure (including labour) associated with the generation of bills and collection of revenue from a retailer's customers and customer service should be included in billing and customer service, including costs associated with:

1. meter reading and calculating and forwarding invoices.
2. preparing consolidated statements including invoices, credits and payments.
3. billing retail customers and revenue collection from retail customers.
4. payments made to agencies for collecting revenue from customers.
5. account enquiries.
6. provision of customer information on customer billing changes.
7. handling of small customer complaints about billing.
8. provision of assistance schemes for customers with payment difficulties.
9. administration of delivery of concessions to eligible customers.
10. contact with the Energy and Water Ombudsman of South Australia.
11. managing accounts receivable.
12. managing credit and bad debt collection.
13. facilitating the internal reporting of network faults and safety hazards, and complaints about the quality and reliability of supply.
14. responding to queries, for example from customers, builders and contractors, on new connections, disconnections and reconnections.
15. responding to queries, for example from customers, builders and contractors, on improving asset utilisation.
16. operating a customer information service that is directly attributable to or caused by the provision of any of the above services.
17. managing and liaising with customer service committees.

LICENCE FEES

Licence fees include amounts paid to the following regulators:

1. Essential Services Commission of South Australia.
2. Environment Protection Agency (**EPA**).
3. SA Health.

CORPORATE OVERHEADS

Retailers will have already apportioned an appropriate amount of corporate overheads, other than those directly attributed to the water/sewerage business unit, to regulated services (water and sewerage retail services) in completing proforma FR1.1.

The types of corporate overhead to be included in this apportionment should include costs associated with:

1. personnel in the corporate group/division.
2. general management.
3. board members.
4. legal counsel.
5. company secretary.
6. quality/business improvement.
7. corporate relations.
8. strategy and planning.
9. human resource management.
10. risk management.
11. insurance management.
12. environment management.
13. property management.
14. support staff for the corporate office.
15. costs incurred by the corporate office, including:
 - a. property rental, repair and maintenance, utilities, and taxes for the corporate office.
 - b. printing and stationery.
 - c. telephone and fax.
 - d. travel expenses.
 - e. legal fees.
 - f. consultants.
 - g. board fees.
 - h. brand advertising and corporate image making.
 - i. corporate/community sponsorships and donations.
 - j. internal communication.
 - k. membership fees for industry or trade organisations.
 - l. freight, courier and postage.
16. membership fees for industry or trade organisations.
17. regulatory staff, providing information requested by the Commission, preparing submissions in response to consultations conducted by the Commission, non-financial audits and the preparation of regulatory accounts.

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

3.3.3 Regulated Asset Schedule (Water and Sewerage Services only) (FR2.1)

As with items in the Income Statement, the retailer must separate out (disaggregate) parts of its Balance Sheet into amounts relating to the provision of water and sewerage retail services (regulated services) from all other services (non-regulated services). The Commission requires reporting of infrastructure asset information relating to the provision of water and sewerage services.

The Commission understands that Councils are required to manage CWMS and drinking water schemes separate from the rest of Council activities and should therefore account for all regulated infrastructure assets in a separate ledger.

Proforma FR2.1 requires retailers to allocate asset amounts relating to water and sewerage retail services between regulated business segments – drinking water, sewerage and trade waste, non-drinking water - in accordance with the allocation principles detailed in section 3.3 of Water Industry Guideline No. 3.

The asset disclosure required is similar to that required by the Local Government Association's Model Financial Statements; therefore most retailers will be familiar with that financial information presentation. If a retailer provides more than one regulated service, e.g. sewerage and recycled water, it is required to separate the asset values relating to each regulated service.

Additions in the year (capital expenditure) should be disclosed by investment driver for each regulated business segment.

The Commission requires disclosure by the following investment drivers:

- ▲ Renewal of existing infrastructure.
- ▲ New assets/upgrades for:
 - ▲ Growth;
 - ▲ Improved standards; and
 - ▲ Compliance.

The Commission expects that retailers will be able to readily split capital expenditure into renewals and new assets/upgrades but that some manipulation of general ledger data may be required to split new assets/upgrades capex into amounts relating to growth, improved standards and compliance.

3.3.3.1 Recycled water and stormwater schemes

Some retailers will need to allocate assets between sewerage services and recycled water services (non-drinking water services) where the reticulation network provides recycled water from treated effluent from its CWMS network. The basis for asset allocation needs to be consistent with the operating cost allocation used between sewerage and recycled water services (as discussed in section 3.3.2.3).

The table below sets out a methodology for asset allocation, for the purposes of producing regulatory accounts, which would be acceptable to the Commission:

Scenario	Regulated Business Segment (to which assets should be allocated)	
	Sewerage	Recycled Water
Recycled water scheme is lowest cost option to meet stricter environmental standards on effluent discharge	All assets allocated	No assets allocated
Recycled water scheme is <u>not</u> lowest cost option to meet stricter environmental standards on effluent discharge	Remainder of assets allocated	Allocate a proportion of the scheme’s assets, reflecting the incremental investment (over the least cost disposal solution)

3.3.4 Additional Capital Expenditure Analysis (Water and Sewerage Services only) (FR2.2)

The Commission wishes to understand the asset categories of capital expenditure and therefore requires disclosure of capex into the following:

- ▲ water storage;
- ▲ pipeworks/network;
- ▲ treatment;
- ▲ corporate; and
- ▲ other.

Note that Water Industry Guideline No. 3 allows retailers to use additional headings if it will improve understanding of their operations.

The retailer will need to supply working papers to evidence the split of capital expenditure into the required categories. The total additions of each split must reconcile with the regulatory asset values in Proforma FR2.1.

4. 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 on an annual basis.

The proformas in Part C cover operations for both water and sewerage retail services. Where a proforma or measure relates specifically to an operation that a retailer does not offer the Commission expects the retailer to leave this blank. For example, if a retailer is only undertaking CWMS operations then that retailer would not be required to fill in data for water infrastructure reliability.

The Commission accepts that the initial regulatory period is a transitional period and that systems may need to be developed to enable reporting in some instances. Retailers are encouraged to discuss any potential problems in completing proformas prior to submission.

4.1 *Information Requirements for Operational Performance Reporting*

4.1.1 *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.

4.1.2 *Additional information requirements (clause 5.2)*

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

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

Requires a retailer to provide an Annual Return to the Commission by no later than 30 November.

4.2 *Operational Performance Proformas*

4.2.1 *Customer complaints (OP1.1)*

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 that indicator allows the Commission to monitor retailers' compliance with the Commission-approved customer enquiry and complaint handling processes mandated by the Water Retail Code.

Where a retailer has joined the Energy and Water Ombudsman scheme, 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 measure has

proven particularly important in the energy industry; amongst other things it has enabled early warning of systemic issues.

Retailers will be required to report on the following customer complaint categories:

- ▲ water service complaints;
- ▲ sewerage service complaints (including CWMS);
- ▲ other; and
- ▲ total water and sewerage (including CWMS) complaints.¹⁰

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 WI Act includes CWMS.

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. This is consistent with the approach the Commission has adopted for the South Australian Water Corporation's (**SA Water**) reporting of complaints under Water Industry Guideline No 2.

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.

Under Water Industry Guideline No. 2, SA Water will be required to report complaints under the additional categories of billing and account complaints, drinking water flow rate or pressure complaints and drinking water quality complaints. At this stage the Commission is not requiring this level of detail from Minor and Intermediate Retailers. However, if a retailer reports a large number of complaints within the water service complaints category the Commission may request further information for those complaints.

Further, monitoring the number of complaints will allow for the consideration of the introduction service standards around the timeliness of response to complaints. The Commission has adopted that service standard for SA Water.

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

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 or disconnected solely due to incapacity to pay. It is understood that the water industry has generally experienced relatively low rates of service restrictions.

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 is, 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.

¹⁰ Intended as a check and should be the sum of the other three categories.

Currently, SA Water is required to report the following categories for residential water restrictions applied for non-payment: financial hardship program, concession and tenant, under Water Industry Guideline No. 2. At this time, the Commission is only proposing to require Minor and Intermediate Retailers to report the category of financial hardship program. The Commission will monitor the level of data reported under Proforma OP2.1 to determine the need to include the additional categories, at a future time.

In reporting restrictions and legal action for non-payment data, the total number of residential customers should include the number reported for the financial hardship program category.

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.

4.2.3 Financial support measures (OP2.2)

The Commission will monitor the number of customers facing hardship, noting that the WI Act requires each retailer to adhere to a hardship program.

Measures required will allow the Commission to monitor the number of customers facing hardship and how well they are assisted by a retailer. The measures concentrate on residential customers (other than for flexible payment arrangements) as they are the only group being targeted for such assistance.

The Commission will rely on a relatively small number of indicators, at least initially for Minor and Intermediate Retailers. SA Water will be required to report on further measures, such as the average bill debt for customers. The Commission is not introducing this measure initially for Minor and Intermediate Retailers. The Commission will monitor the level of data reported under the hardship customers to determine the need to include the additional measure.

The Commission will monitor the number of residential customers utilising a retailer’s flexible payment arrangements, as required under clause 5.4 of the Water Retail Code. Where the retailer is a Council, the flexible payment arrangements will include instances where a ratepayer is paying their overall rate notice by instalments and the charges for water and/or sewerage are also paid by instalment

The number of customers receiving water and sewerage concessions will be sought, noting that the State Government provides a separate concession for each.¹¹

4.2.4 Water infrastructure reliability (OP3.1)

There are a range of measures for monitoring the reliability of water infrastructure, a number of which are reported routinely under the National Performance Framework (NPF).¹²

¹¹ 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>

The required measures draw on the NPF indicators, as ultimately adopted for SA Water in Guideline No2 (WG2/01).

Requiring this data to be reported through Water Industry Guideline No. 3 would capture all water industry entities to which the Guideline applies, as currently no Minor and Intermediate Retailers report through the NPF.

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.

Several infrastructure reliability measures will be monitored to determine the appropriateness of developing service standards in future. For example, the Commission requires data on the number of service outages be reported.

Currently, the Commission is only requesting data for the total number of water service planned and unplanned interruptions and is not requesting the unplanned data be disaggregated into categories relating to the priority of the event. This differs from Water Industry Guideline No. 2, in that SA Water must report restoration of water service interruptions with events split into three categories.

4.2.5 Sewerage infrastructure reliability (OP3.2)

There are a range of measures for monitoring the reliability of sewerage infrastructure, a number of which are reported routinely under the NPF.

The required measures draw on the NPF indicators, as ultimately adopted for SA Water in Guideline No2 (WG2/01).

Requiring this data to be reported through Water Industry Guideline No. 3 would capture all water industry entities to which the Guideline applies, as currently no Minor and Intermediate Retailers report through the NPF.

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.

As with Proforma OP3.1, several sewerage infrastructure reliability measures will be monitored to determine the appropriateness of developing service standards in future. For example, the Commission requires reporting of the data on the number of planned and unplanned service interruptions and sewerage overflow events.

Again, the Commission is only requesting data for the total number of unplanned sewerage service interruptions and is not requesting the data be disaggregated into categories relating to the priority of the event.

¹² 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/>

4.2.6 Customer Numbers (OP4.1(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.

Where possible, the Commission will rely on definitions employed in existing reporting systems, rather than seeking to impose new definitions.

4.2.7 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. potable 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.

The Commission is not requiring the reporting of the volume of sewage supplied to other infrastructure operators as, once again, the focus of Water Industry Guideline No. 3 and the Water Retail Code is on end use customers.

4.2.8 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.

4.2.9 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.

OP4.1(d) also includes collecting data on the total number of water connections and sewer connections. The Commission will compare data collected under this measure with data collected under customer numbers.

5. PART D – PRICE MONITORING AND REPORTING

Part D of the Guideline relates to requirements specific to price monitoring and reporting and comprises two proformas for publication and a confidential questionnaire, which are to be completed on an annual basis.

The Commission accepts that the initial regulatory period is a transitional period and that developing responses, particularly to the questionnaire, may present difficulties for some licensees. Retailers are encouraged to discuss any potential problems in completing proformas prior to submission.

5.1 *Information Requirements for Price Monitoring and Reporting*

5.1.1 *Use of Proformas to report information (clause 6.1)*

Sets out that information is to be provided by completing the price monitoring and reporting proformas in Schedule 3 of the Guideline.

5.1.2 *Additional information requirements (clause 6.2)*

Provides the 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 6.3)*

Requires a retailer to provide an Annual Return to the Commission by no later than 31 August. Additionally, requires a retailer to publish on its website both a Pricing Schedule and a Pricing Policy Statement by no later than 31 August.

5.1 *Price Monitoring and Reporting Proformas*

5.1.1 *Pricing Schedule (PM1.1)*

The pricing schedule should be completed to reflect all water retail services offered by the licensee to customers. Additional lines should be added to/removed from the proforma as necessary to provide information on the full range of services offered. It is expected that, for some licensees, the pricing schedule will run to several pages.

It is expected that the majority of licensees will change their prices on 1 July of each year. For those licensees where a different price change date is used, current prices should be published, along with prices prior to the last price change. An explanatory note should be provided if the last price change date differs from the 1 July default.

Price changes should be stated as percentages to one decimal place (e.g. +2.5%).

This information should be provided both to the Commission and published on a licensee's website.

5.1.2 Pricing Policy Statement (PM2.1)

A narrative description should be provided of the following:

- the retail services offered;
- how the current pricing policies have been developed; and
- the rationale for the price movements between the current year and the previous year.

Again, the proforma should be adjusted to allow sufficient narrative to respond to the required questions.

This information should also be provided both to the Commission and published on the licensees website.

5.1.3 Pricing Policy Questionnaire (PM3.1)

This document should take the form of a MS Word (or appropriate equivalent) narrative document, in sufficient detail to respond fully to the required questions.

This information is requested for the Commission's regulatory monitoring purposes only, and is not required to be published by licensees. Further, the Commission will not publish this information in full. It may, however, publish summary information (e.g. of the level of compliance across all Minor and Intermediate Retailers), as part of the Commission's Water Industry Performance reporting.

6. RESPONSIBILITY STATEMENT (ANNEXURE A)

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 A 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 operational reporting, whilst the second relates to price monitoring and reporting. Two separate statements are required due to the two different reporting dates for information.

The operational reporting Responsibility Statement also makes provision for an explanation for any variation.

The Commission is not proposing to require Minor and Intermediate Retailers to procure an audit of their regulatory accounting statements.

7. GLOSSARY

The Glossary provides key definitions used in Water Industry Guideline No. 3.



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