



# Explanatory Memorandum

## Water Industry Guideline No. 2 – Regulatory information requirements for Major Retailers

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## Glossary of Terms

<b>ADP</b>	Adelaide Desalination Plant
<b>Commission</b>	Essential Services Commission of South Australia
<b>Concession</b>	means a South Australian Government water or sewerage concession
<b>Customer</b>	<p>means a person who owns land in relation to which a retail service is provided and includes:</p> <ul style="list-style-type: none"> <li>• where the context requires, a person seeking the provision of a retail service; and</li> <li>• 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</li> <li>• a person of a class declared by the regulations to be customers</li> </ul>
<b>CWMS</b>	Community Waste Management System
<b>EPA</b>	Environment Protection Agency
<b>ESC Act</b>	Essential Services Commission Act 2002 (SA)
<b>ESCOSA</b>	Essential Services Commission of South Australia
<b>FR</b>	Financial Reporting Proforma, as contained in Water Industry Guideline No. 2
<b>Government</b>	South Australian Government
<b>Intermediate Retailer</b>	means a retailer which provides retail services to more than 500 and up to and including 50,000 connections
<b>LGA</b>	Local Government Association of South Australia
<b>Major Retailer</b>	means a retailer which provides retail services to over 50,000 connections
<b>Minor Retailer</b>	means a retailer which provides retail services to up to and including 500 connections
<b>National Performance Framework</b>	National Performance Framework: Urban Performance Reporting Indicators & Definitions Handbook
<b>Non-residential Customer</b>	means a customer other than a residential customer
<b>NWC</b>	National Water Commission
<b>NWI</b>	National Water Initiative
<b>OP</b>	Operational Proforma, as contained in Water Industry Guideline No. 2
<b>Price Determination</b>	means the a price determination made by the Commission under the WI Act and Part 3 of the ESC Act
<b>Residential Customer</b>	means a customer who acquires a retail service primarily for domestic use

<b>Retailer</b>	means a water industry entity licensed in accordance with Part 4 of the WI Act
<b>Retail Service</b>	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"> <li>• drinking water services;</li> <li>• non-drinking water services; and</li> <li>• sewerage services.</li> </ul>
<b>SA Water</b>	South Australian Water Corporation
<b>Sewerage Service</b>	has the same meaning as given to the term in the WI Act
<b>Statutory Accounts</b>	means financial statements, prepared in accordance with the Corporations Act 2001 (Cth) and Australian Accounting Standards
<b>WI Act</b>	Water Industry Act 2012 (SA)
<b>Water Industry Guideline No. 1</b>	Water Industry Guideline No. 1 - Compliance Systems and Reporting, (WG1/04)
<b>Water Industry Guideline No. 2</b>	Water Industry Guideline No. 2 – Regulatory information requirements for Major Retailers (WG2/03)
<b>Water Industry Guideline No. 3</b>	Water Regulatory Information Requirements for Minor and Intermediate Retailers - Water Industry Guideline No. 3 (WG3/04)
<b>Water Retail Code</b>	Water Retail Code – Major Retailers, which is an industry code made by the Commission, in accordance with Part 4 of the ESC Act
<b>Water Service</b>	has the same meaning as given to the term in the WI Act

# 1 Overview

This Explanatory Memorandum has been prepared as an accompanying document to the Water Industry Guideline No. 2 – Regulatory information requirements for Major Retailers (version WG2/03) (**Water Industry Guideline No. 2**).<sup>1</sup> 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**) are required to report financial and operational performance information to the Essential Services Commission (**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 Water Industry Guideline No. 2.

The extent of an individual retailer's reporting requirements are determined by the size of its customer base.<sup>2</sup> This Water Industry Guideline No. 2 relates to Major Retailers only, retailers with 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).<sup>3</sup> 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 Water Industry Guideline No. 2 is used to assist the Commission to monitor the performance of Major Retailers.

- ▲ **Financial** performance monitoring and reporting provides 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 regulatory determinations.
- ▲ **Operational** performance monitoring and reporting data 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.

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 South Australian Government.

The data collected under the Water Industry Guideline No. 2 forms an important input into the Commission's annual Water Industry Regulatory Performance Reports. Those Regulatory Performance Reports provide South Australian consumers with information on the operation of the water industry – one of the Commission's functions under section 5 of the Essential Services Commission Act 2002 (**ESC Act**).<sup>4</sup>

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

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<sup>1</sup> Essential Services Commission, *Water Regulatory Information Requirements-Water Industry Guideline No. 2* (WG2/03), July 2016; available at <http://www.escosa.sa.gov.au/water-overview/codes-guidelines/water-guidelines.aspx>. WG2/03 identifies the version, with "WG2" referring to Water Industry Guideline No. 2 and "03" signifying version 3.

<sup>2</sup> 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.

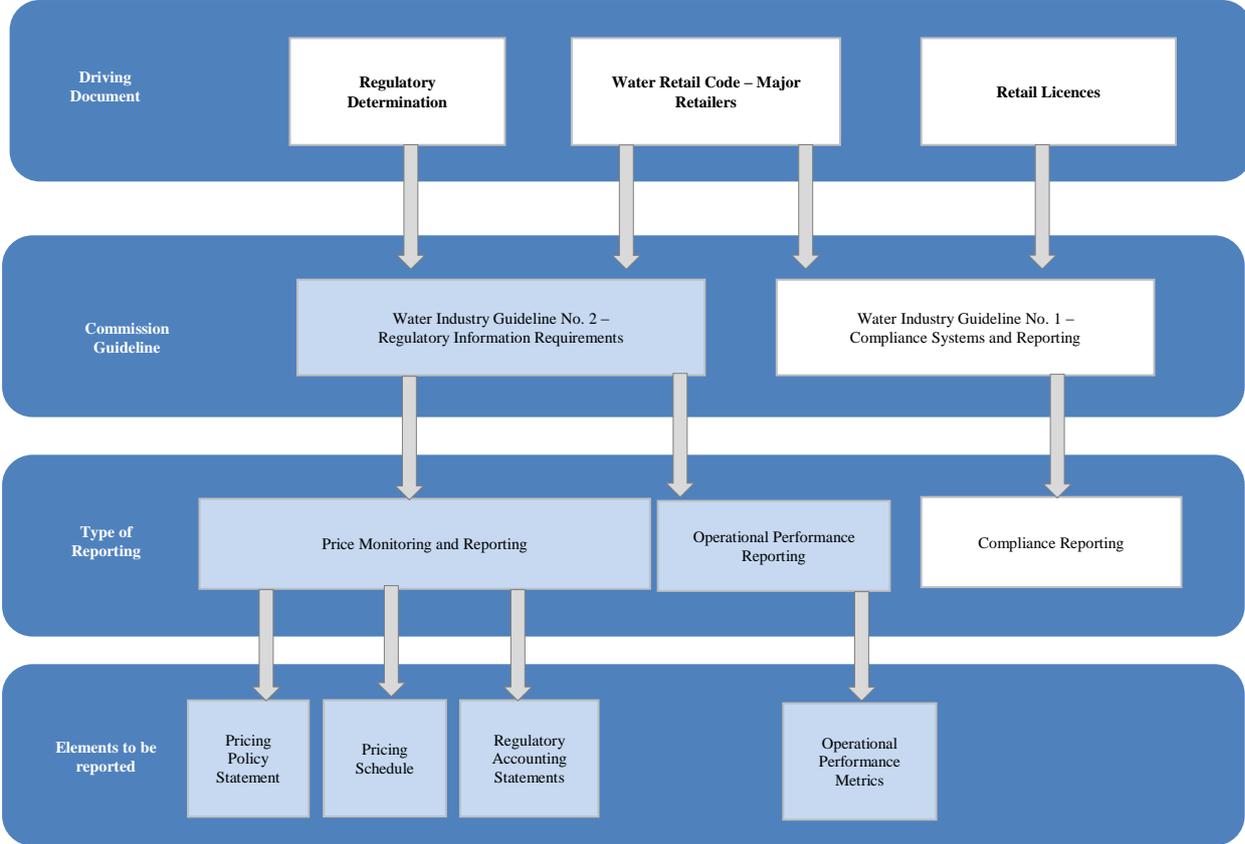
<sup>3</sup> Water Regulatory Information Requirements Water Industry Guideline No. 3; available at: <http://www.escosa.sa.gov.au/water-overview/codes-guidelines/water-guidelines.aspx>.

<sup>4</sup> Refer sections 5(b), (c) and (d) of the ESC Act.

**(Water Industry Guideline No. 1).**<sup>5</sup> 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



<sup>5</sup> Essential Services Commission, Compliance Systems and Reporting, Water Industry Guideline No.1 (WG1/04); available at <http://www.escosa.sa.gov.au/water-overview/codes-guidelines/water-guidelines.aspx>.

## 1.1 Categorising Water Industry Guideline No. 2 metrics

Table 1 provides a table of contents for the measures retailers are required to report under Parts B and C of the Water Industry Guideline No. 2. It categorises the performance measures according to the purpose of each measure, as follows:

- ▶ **Ring fencing** – separates 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 investment;
- ▶ **Water Retail Code** – monitors the operation of sections of the Water Retail Code – Major Retailers (**Water Retail Code**);
- ▶ **Service Standard** – minimum service levels a retailer is required to use its best endeavours to meet;
- ▶ **Operational reliability** – monitors the level of performance, 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 1,000 customers”); and
- ▶ **Data integrity** – measures such as CEO verification of the data provided to the Commission.

Table 1. Performance measures by categories

PROFORMA REFERENCE	PERFORMANCE MEASURE	PURPOSE
<b>Income and Costs</b>		
FR1.1	Audited statutory accounts	Ring fencing
FR1.2	Disaggregated income statement	Ring fencing
FR1.3	Regulatory income statement – Drinking water and sewerage retail services	Ring fencing
FR1.4	Regulatory income statement – Excluded services	Ring fencing
FR1.5	Regulatory income and operating cost analysis – Drinking water and sewerage retail services	Financial performance
FR1.6	Regulatory income and operating cost analysis – Excluded services	Financial performance
<b>Assets</b>		
FR2.1	Audited statutory balance sheet	Ring fencing
FR2.2	Audited statutory asset schedule	Ring fencing
FR2.3	Disaggregated infrastructure, plant and equipment, intangibles 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 – Drinking water and sewerage retail services	Asset investment
FR2.8	Regulatory capital expenditure analysis – Excluded services	Asset investment
FR2.9	Regulatory project capital expenditure analysis – Drinking water and sewerage retail services	Asset investment
<b>Customer Service</b>		
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
<b>Financial</b>		
OP2.1	Restrictions and legal action for non-payment	Water Retail Code (clause 26)*
OP2.2	Financial measures	Water Retail Code (clause 10)
OP2.3	Price movements	Water Retail Code*
<b>Reliability</b>		
OP3.1	Water infrastructure reliability	Operational Reliability*
OP3.2	Timeliness of attendance at water network breaks, bursts and 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
<b>Statistical</b>		
OP4.1	Statistical information	Statistical information
<b>Assurance</b>		

Schedule 3	Responsibility statement	Data integrity
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\*Incorporates one or more National Performance Framework measures<sup>6</sup>.

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<sup>6</sup> For example, refer to National Water Commission, *2012-13 National Performance Framework: Urban performance reporting indicators and definitions handbook*, and auditing requirements, July 2013; available at <http://www.nwc.gov.au/>

## 2 Service Standards

The WI Act provides the Commission with the power to set minimum service levels (service standards) to be met by water and sewerage retail service providers. As indicated in Table 1, the Commission has set service standards relating principally to the performance of retailers in response to customer requests for services and dealing with any interruptions to such services. These service standards have two elements. Firstly, the retailer is set a target (for example, a minimum average time to respond to all telephone calls received in a year). Secondly, the retailer is required to use best endeavours to meet that target.

### 2.1 Best Endeavours

The Commission has adopted a *best endeavours* approach to determining if a specific service standard 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*".

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. A party 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.

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) (for example, 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 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 not met the standard. That is, the retailer may not 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 the 1 July 2016 to 30 June 2020 regulatory period

Based on overall high levels of customer satisfaction observed during the previous regulatory period and evidence that customers are not willing to pay more for higher levels of service,

SA Water is required to use its best endeavours to maintain the same level of service as it achieved over the years 2013-14 and 2014-15.

SA Water's customer service and network reliability performance is assessed against 18 binding service standard measures. At the same time, the Commission monitors and publicly reports on a wider range of performance measures, to give customers visibility of the nature and quality of the services provided by SA Water.

The Water Industry Guideline No. 2 and this Explanatory Memorandum have been amended to reflect these service standard changes.

## 3 PART A – Preliminaries

Part A of the Water Industry Guideline No. 2 sets out preliminary matters.

### 3.1 Nature of the Guideline

Section 1 provides a preamble for the Water Industry Guideline No. 2.

#### 3.1.1 Title, authority and commencement (clause 1.1)

This clause sets out the authority for making and the commencement date of the Water Industry Guideline No. 2.

#### 3.1.2 Scope (clause 1.2)

This clause specifies that the Water Industry Guideline No. 2 relates to the collection, allocation, recording and reporting of regulated business data.

#### 3.1.3 Application (clause 1.3)

This clause establishes which organisations are bound to report under the Water Industry Guideline No. 2. The Water Industry Guideline No. 2 applies to all Major Retailers except to the extent the Commission agrees in writing to alternative reporting arrangements.

#### 3.1.4 Parts (clause 1.4)

This clause sets out the various parts of the Water Industry Guideline No. 2.

#### 3.1.5 Other Acts, industry codes and guidelines (clause 1.5)

This clause explains that a retailer is obliged to comply with all other relevant Acts of Parliament, industry codes and guidelines in addition to the Water Industry Guideline No. 2.

#### 3.1.6 Interpretation (clause 1.6)

This clause explains the basis for interpreting the Water Industry Guideline No. 2.

#### 3.1.7 Definitions (clause 1.7)

This clause explains the meaning of certain expressions used in the Water Industry Guideline No. 2.

#### 3.1.8 Processes for revision (clause 1.8)

This clause sets out the process for revising the Water Industry Guideline No. 2, which will involve stakeholder consultation, with the possible exception of amendments of a routine nature or required by law.

#### 3.1.9 Input from interested parties (clause 1.9)

The Commission welcomes suggestions from stakeholders on how to improve the Water Industry Guideline No. 2 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 Water Industry Guideline No. 2 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 applies 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. The Commission can also require audits or independent assurance of any other information submitted to it.

Independent assurance that is to be obtained by the Commission under the Water Industry Guideline No. 2 should be consistent with the requirements of Water Industry Guideline No. 1.

### 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 Water Industry Guideline No. 2 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 drinking water and sewerage retail services and excluded services) and unregulated services. Services falling into each category are established by the Price Determination made by the Commission,<sup>7</sup> 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 (drinking 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 percent 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, for example, by how much each business segment or activity consumed or utilised the resource or service. The Water Industry Guideline No. 2 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.

#### 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 Water Industry Guideline No. 2 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 Water Industry Guideline No. 2 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 1.9 of the Water Industry Guideline No. 2.

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<sup>7</sup> Essential Services Commission, *SA Water Regulatory Determination 2016 – Final determination*; June 2016, available at <http://www.escosa.sa.gov.au/projects/231/sa-water-regulatory-determination-2016.aspx>.

#### 4.1.5 Regulatory accounting periods (clause 3.5)

This clause sets out that the reporting period is 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 five months of the end of the regulatory accounting period.

#### 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.

### 4.2 Information requirements for financial performance reporting

#### 4.2.1 Use of proformas to report information (clause 4.1)

Schedule 1 in the Water Industry Guideline No. 2 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 Water Industry Guideline No. 2. Where reference is made 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 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 no later than 1 July 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 drinking water and sewerage retail 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 may require certain adjustments to the disaggregated accounts to reflect different accounting treatment for regulatory purposes. Some of the regulatory adjustments required are detailed in the SA Water Regulatory Determination 2016.<sup>8</sup>

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 Water Industry Guideline No. 2 require regulatory adjustments to:

- ▶ the income statements for both drinking water and sewerage retail services and excluded services; and
- ▶ the infrastructure, property, plant and equipment asset values for both drinking water and sewerage retail services 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).

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<sup>8</sup> Essential Services Commission, *SA Water Regulatory Determination 2016 – Final determination*; June 2016, available at <http://www.escosa.sa.gov.au/projects/231/sa-water-regulatory-determination-2016.aspx>.

#### 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.

### 4.3 Schedule 1 – Financial Performance Proformas

The Commission uses 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 requires 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: drinking water and sewerage retail services, which are subject to price regulation, and excluded services, which are to be subject to alternative forms of control, for example, pricing principles or price monitoring. The Commission therefore also requires Major Retailers to disaggregate their statutory accounts into drinking water and sewerage retail services and excluded services. The Commission has set out the classification of services in the SA Water Regulatory Determination 2016.<sup>9</sup>

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

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<sup>9</sup> Essential Services Commission, *SA Water Regulatory Determination 2016 – Final determination*; June 2016, available at <http://www.escosa.sa.gov.au/projects/231/sa-water-regulatory-determination-2016.aspx>.

#### **4.3.2.1 Income**

Income must be allocated into drinking water and sewerage retail services, excluded services and unregulated services, and into income account headings including the following:

##### **Water sales – residential**

Usage charges for the consumption of water by residential properties.

##### **Water sales – non-residential**

Usage charges for the consumption of water by non-residential properties.

##### **Water rates – residential**

Access charges for the supply of water services to residential properties.

##### **Water rates – non-residential**

Access charges for the supply of water services to non-residential properties.

##### **Wastewater rates – residential**

Access charges for the supply of sewerage services to residential properties.

##### **Wastewater rates – non-residential**

Access charges for the supply of sewerage services to non-residential properties.

##### **Recycled water sales**

Usage charges for the consumption of recycled water by all properties.

##### **Trade waste**

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

##### **Third party access revenue**

Access charges associated with the provision of third party access to declared infrastructure.

##### **Other income**

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

##### **Community service obligations**

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

##### **Other Government contributions/grants**

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

##### **Contributed assets - New customer contributions**

Contributions, grants or donations 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.

#### **4.3.2.2 Operating expenses**

Operating expenses must be allocated into drinking water and sewerage retail 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.
- ▶ insurance premiums including property insurance and public liability; and
- ▶ audit fees.

#### Third party access operating expenses

All operating expenses associated with the provision of third party access to declared infrastructure.

#### Business support/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.

#### Business development/other costs

Costs not included in the above categories. The retailer needs 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 Water Industry Guideline No. 2 (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, for example, 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 Water Industry Guideline No. 2 allows a retailer to use additional headings if they will improve the users understanding of its business (per clause 3.4).

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

#### **4.3.2.4 Borrowing costs, contingent rentals, depreciation and income tax**

Borrowing costs, contingent rentals, depreciation expense and income tax must be allocated into drinking water and sewerage retail services, excluded service and unregulated services.

A retailer needs to supply working papers to evidence the amounts included in each of these account headings.

#### **4.3.3 Regulatory income statement - Drinking water and sewerage retail services (FR 1.3)**

This proforma requires a retailer to apply regulatory accounting adjustments to the drinking water and sewerage retail 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.

The information in section 4.3.2 of this Explanatory Memorandum is relevant to the completion of this proforma.

#### 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 4.3.2 of this Explanatory Memorandum is relevant to the completion of this proforma.

#### 4.3.5 Regulatory income and operating cost analysis – Drinking water and sewerage retail services (FR 1.5)

Proforma FR 1.5 requires income and costs of drinking water and sewerage retail services to be split by the regulated business segment to which they relate – drinking water and sewerage and trade waste. Where necessary, costs should be allocated in accordance with the cost allocation principles in clause 3.3 of the Water Industry Guideline No. 2.

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

##### Recycled water and stormwater schemes

Wastewater recycling schemes can be classified as sewerage retail services and stormwater reclamation can be classified as a water retail 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 previously provided information to the Commission indicating that all of its recycled water schemes (other than the Glenelg to Adelaide Pipeline) and its three stormwater recycling schemes) are driven by EPA requirements, and are least-cost methods of treatment and disposal of sewerage.

As described in section 4.3.2 above, recycled water sales should be separately identified as an income category. Income from stormwater sales should be separately identified if the total is deemed material.

#### 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 – drinking water and sewerage and trade waste. Where necessary, costs should be allocated in accordance with the cost allocation principles in clause 3.3 of the Water Industry Guideline No. 2.

#### 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 drinking water and sewerage retail services, excluded services and unregulated services. The Commission has set out the classification of services in the SA Water Regulatory Determination 2016.<sup>10</sup>

The Commission only requires one line of the statutory balance sheet (infrastructure, property, plant and equipment) to be disaggregated. A retailer needs 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 Water Industry Guideline No. 2 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 (for example, filtration plants, pumping stations, tanks, reservoirs);
- ▶ ADP membranes - reverse osmosis membranes which are replaced over a 5-7 year period (and expensed in the statutory accounts);
- ▶ 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;
- ▶ 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 (for example, treatment plants, pumping stations);

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<sup>10</sup> Essential Services Commission, *SA Water Regulatory Determination 2016 – Final determination*; June 2016, available at <http://www.escosa.sa.gov.au/projects/231/sa-water-regulatory-determination-2016.aspx>.

- ▶ 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 reconciliation 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 Water Industry Guideline No. 2).

#### 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 and sewerage.

#### 4.3.13 Regulatory capital expenditure analysis – Drinking water and sewerage retail 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 Water Industry Guideline No. 2).

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 disclosure 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 – Drinking water and sewerage retail 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 SA Water Regulatory Determination 2016, disclosure is required for projects with either a gross expenditure of over \$4 million in the year, or a projected gross expenditure of over \$4 million in the regulatory period.

For any projects where there is a material variance between the SA Water Regulatory Determination 2016 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 or rationale.



## 5 PART C – Operational performance reporting

Part C of the Water Industry Guideline No. 2 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.<sup>11</sup> 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 the 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 Water Industry Guideline No. 2.

#### 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 quarterly returns (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.

### 5.2 Schedule 2 – Operational Performance Proformas

Each proforma includes guidance notes to provide additional assistance.

Proformas with the prefix “timeliness” include 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>.

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<sup>11</sup> For example, as employed under the National Performance Framework.

### 5.2.1 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 originally published by the National Water Commission (NWC) excludes a number of calls, such as integrated voice response calls where the customer does not select an operator.<sup>12</sup>

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

Three categories of information are required, being: the gross total (for example, total number of telephone calls), the number dealt with in the standard time period (for example, number of telephone calls answered within 30 seconds) and the percentage achieved (for example, 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.

### 5.2.2 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.

The Commission uses a combination of the number of complaints reported by water retailers and the number of complaints handled by the Energy and Water Ombudsman SA as an indicator as to how well water industry entities are responding to customers’ needs.

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

This indicator (OP1.2) is reported annually under the National Performance Framework. Water Industry Guideline No. 2 requires 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 or CWMS);<sup>13</sup>
- ▶ water service complaints;
- ▶ drinking water flow rate or pressure complaints;<sup>14</sup>
- ▶ drinking water quality complaints;
- ▶ sewerage service complaints (including CWMS);
- ▶ other; and
- ▶ total water and sewerage (including CWMS) complaints.

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<sup>12</sup> Integrated Voice Response refer to an automated system used for answering telephone calls.

<sup>13</sup> CWMS refers to Community Wastewater Management Systems. CWMS (formerly STEDS) provide approximately 10 percent 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>)

<sup>14</sup> Included within *water service complaints* in the National Performance Framework complaint categories.

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

The complaint performance of water retailers is compared by deriving a figure of “complaints per 1,000 customers” for each retailer, to assist in identifying any retailer that may warrant closer scrutiny.

### 5.2.3 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 Commission-approved customer enquiry and complaint handling processes mandated by the Water Retail Code.

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 service 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 verbally (for example, face-to-face or via telephone) or in writing and can be responded to either in writing or by telephone.

For both complaint service 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 Water Industry Guideline No. 2.

#### 5.2.4 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.

SA 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 service standards 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 (for example, 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 definitions 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.*

The Commission is requiring that this measure be reported by region (for example, Adelaide metropolitan vs regional), given that different standards have been set for each region, reflecting historical performance. There is no comparable National Performance Framework performance measure.

#### 5.2.5 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 (for example, standard or non-standard) and type of service have been set for SA Water. There is no comparable National Performance Framework performance measure.

The Commission monitors SA Water's performance at the following two stages of the connection process:

- ▶ the processing of the initial application to assess whether the connection is standard or non-standard, and
- ▶ construction of the physical infrastructure.

The connection construction performance targets exclude any delays caused by customers or third parties not employed by SA Water that impact on its ability to meet the required timeframes. Where a customer or third party delay has caused the target for construction of a customer connection to be missed, then that event should be reported as meeting the target (as long as the time taken by SA Water, excluding the external delay, is within the target).

#### 5.2.6 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.

### 5.2.7 Restrictions and 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.

Major Retailers may restrict water supply, but are not permitted to restrict sewerage services, where a customer does not 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 is not permitted to impose a water restriction (for example, fit a flow restriction device) where it is pursuing debt recovery through other means (for example, legal or collection action), or vice versa. That is, SA Water cannot pursue both flow restriction and collection action at the same time.

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

This performance measure is required to be disaggregated according to type of customer (for example, residential vs non-residential). 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.

The level of reconnections or restriction removal occurring at the same premises in the same name within 7 days of restriction is also monitored. The primary purpose is to determine the extent to which customers are able to resolve their issue quickly and return to full service.

### 5.2.8 Financial measures (OP 2.2)

The Commission monitors 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 10).

This indicator is required to be reported by region (for example, Adelaide metropolitan vs regional), so performance by region can be monitored over time.

The measures required to be reported 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 instalment plans) as they are the only group being targeted for such assistance. Average bill debt for hardship customers is 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 25.1 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 are sought, noting that the South Australian Government provides a separate concession for each. As the South Australian Government also provides concessions to tenants, care is needed to be taken to supplement details of the number of concession holders reported under Water Industry Guideline No. 2 from other sources (for example, 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.<sup>15</sup>

### 5.2.9 Price Movements (OP 2.3)

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<sup>15</sup> 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>

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

The 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 customer (for example, the customer with average consumption).

This measure is required to be reported by region (for example, Adelaide metropolitan vs regional) to enable changes over time to be separately monitored. For example, any changes in community service obligation payments could result in regional bills changing at a different rate to metropolitan bills.

This measure is also only to be reported annually, consistent with the National Performance Framework.

#### 5.2.10 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. The drinking water and recycled water infrastructure reliability measures in Water Industry Guideline No. 2 draw on the National Performance Framework indicators and are not subject to service standards.

These indicators are required to be reported by region (for example, Adelaide metropolitan vs regional), to enable any differences in performance to be monitored over time.

These performance measures are not disaggregated according to type of customer (for example, residential vs. non-residential), as the additional benefit is not seen to warrant the additional cost.

Although SA Water is not required to report reliability measures for non-drinking water infrastructure, the Commission continues to monitor this issue and may decide to require non-drinking infrastructure to be reported if issues arise.

#### 5.2.11 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.

SA Water has previously 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 expects that SA Water will implement the necessary systems and procedures to enable it to report these measures in future.

This measure is to be reported by region (for example, Adelaide metropolitan vs regional), so that performance by region can be monitored over time.

#### 5.2.12 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.

This measure is to be reported by region (for example, Adelaide metropolitan vs regional), so that performance by region can be monitored over time.

#### 5.2.13 Sewerage infrastructure reliability (OP 3.4)

The water infrastructure reliability measures in Water Industry Guideline No. 2 draw on the National Performance Framework indicators and are not subject to service standards.

These indicators are required to be reported by region (for example, Adelaide metropolitan vs regional), to enable any differences in performance to be monitored over time.

#### 5.2.14 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.

This measure is to be reported by region (for example, Adelaide metropolitan vs regional), so that performance by region can be monitored over time.

#### 5.2.15 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.

This measure is to be reported by region (for example, Adelaide metropolitan vs regional), so that performance by region can be monitored over time.

#### 5.2.16 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.

This measure is to be reported by region (for example, Adelaide metropolitan vs regional), so that performance by region can be monitored over time.

#### 5.2.17 Customer Numbers (OP 4.1(A))

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

The Commission requires the reporting of customer number statistics for each type of retail service 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 1,000 customers”, allowing performance to be more readily compared across water industry entities and for a given retailer over time.

Although 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.

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

Accordingly, the Commission defines customers in terms of account holder for each type of retail service, which enables “per 1,000 customer” metrics to be developed on a quarterly basis.

#### 5.2.18 Sales (OP4.1(B))

The Commission monitors various aspects of retail water services and requires the reporting of the “volume of water supplied” by various categories (OP4.1(B)).

From the data received, the Commission monitors trends in overall consumption by types of water (for example, drinking water, non-drinking water), and by types of customer (for example, 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, it is assumed that the water 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.

#### 5.2.19 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.

#### 5.2.20 Miscellaneous (OP4.1(D))

OP4.1(D) is 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 Schedule 3 – Proforma Responsibility Statement

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.

Schedule 3 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 service standards not met and in the event of service standards not being met, how and when the retailer intends to improve performance to meet the service standard.



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