

A decorative graphic on the left side of the page, featuring several thick, colored lines (purple, green, orange, blue) that represent water pipes. These lines are arranged in a complex, overlapping pattern, with some lines curving and others running straight, set against a light grey background with rounded corners.

## Consultation Draft Regulatory Information Requirements for Major Water Retailers SA Water response

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## Executive Summary

On 22 April 2013 the Essential Services Commission of South Australia (ESCOSA) re-released Water Industry Guideline No. 2 in draft form for public consultation (Consultation Document). This document has been revised after previous public consultation to include provisional details on financial performance reporting requirements for Major Retailers.

These details have not previously been the subject of public consultation and SA Water welcomes the opportunity to review the revised document for suitability and appropriateness. In support of the process and to seek clarification, SA Water has discussed with ESCOSA the outcomes of its review and now makes this public submission for ESCOSA's further consideration.

The key themes of SA Water's review include:

1. Timeframe for submission of the financial performance report;
2. Audit requirements; and
3. The level of disaggregation and format for the reporting requirements.

These are discussed further in the following chapters of this document.

SA Water will continue to work with ESCOSA to develop the most efficient and usable set of regulatory information requirements.

# 1 SA Water review of the Consultation Document

## 1.1 Timeframe for submission

SA Water notes that the Consultation Document does not currently state timeframes within which the required financial performance report is required to be submitted to ESCOSA.

As noted in section 3 of the Consultation Document, regulatory financial reporting is aligned with the Statutory Accounts. This alignment places a constraint on the timing of the release of the financial performance report as the regulatory report cannot be finalised until the Statutory Accounts are finalised. Based upon the requirements of SA Water's externally imposed governance protocols the Statutory Accounts are not publicly available until November following the end of the financial year.

Therefore SA Water would not be in a position to provide this financial reporting data to ESCOSA until mid-November of each year. This matter is addressed further in section 1.2, Audit requirements.

SA Water is seeking clarification that this timing will meet the objectives for regulatory financial performance reporting.

## 1.2 Audit requirements

SA Water notes that the proposed approach for the auditing of the regulatory financial reporting, as detailed in Annexure A of the Consultation Document, is likely to result in a duplication of the audit of SA Water's Statutory Financial Statement already undertaken by the Auditor General of South Australia (Auditor General).

Should the Auditor General not be the designated auditors of SA Water's Regulatory Accounts this would require a duplicate audit by an alternate auditor of the full accounts to substantiate the regulatory financial report. This will create an undesirable additional cost resulting from duplicated auditing services, and possibly delays in availability of information to ESCOSA due to multiple parties requiring access to the same information/records under the same timeframes.

It is recommended that the Auditor General be consulted further on the future auditing requirements to establish auditing protocols before a regulatory process is set in place.

A further issue for consideration is the potential variations of accounting treatment between the Statutory Accounts and the regulatory financial reporting. For example, within the draft determination of SA Water's water and sewerage revenues 2013/14 – 2015/16 (Draft Determination) it is proposed to capitalise certain operating costs. As noted within SA Water's response to the Draft Determination, this may not align with Australian Accounting Standards and therefore will be at variance with the treatment of this expenditure in the Statutory Accounts.

SA Water is seeking clarification from ESCOSA on the treatment of any such variation from the Statutory Accounts and how this will impact the auditing requirements.

## 1.3 The level of disaggregation and format for the reporting requirements

On review of the data required within the Consultation Document, SA Water suggests that the current requirements are not appropriately aligned to the requirements of regulation and a less onerous approach on Major Retailers should be taken in the first instance, to be revised and refined as understanding develops (and as requirements dictate).

SA Water believes the regulatory information requirements should be developed in line with the following criteria:

- Regulatory requirements – data required to perform necessary regulatory analysis and make regulatory decisions;
- SA Water’s business structure and current reporting requirements;
- Efficiency and analysis of administrative costs/benefits.

The level of detail included in the templates in schedule 1 of the Consultation Documents is significantly more detailed than required to be disclosed as part of the Statutory Accounts. SA Water believes mandating the data at such a granular level at this stage of economic regulation may cause problems in that:

1. The data may not be reflective of the structure of the business or provide ESCOSA with a representation of true division of costs;
2. The reporting structure does not allow for any future changes to the organisation structure or accounting treatment; and
3. The level of detail of data required may present concerns from a Commercial in Confidence perspective.

The second point is of particular note in a regulated environment as SA Water’s business will need to be very flexible over time in order to achieve efficient outcomes and it is expected that business structure and processes are likely to change. SA Water has concerns for the longevity and comparability of regulatory data if the reporting structure is set at such a granular level.

SA Water suggests that aligning the level of granularity for regulatory reporting with the Statutory Accounts would be appropriate in the first instance and would welcome the opportunity for further discussion on this matter.