



QCA Pricing Practices Recommendations
October Update on SunWater Implementation Plan

October 2013

SunWater has continued implementing the QCA's Pricing Practices Recommendations via the implementation plan. This update covers the work completed between July and September 2013.

Note: numbering in this report references SunWater's Implementation Plan of September 2012.

Review Renewals Planning Process (1.2)

Document Outcomes from Prototype NSP Process Relevant to Renewals Planning, including any Customer Feedback (1.2.2)

The feedback from customers and the QCA on the prototype NSPs relevant to renewals planning falls into the following categories:

- Reconciling Renewals Target Spend to the QCA Final Report,
- Real vs. Nominal Cost Reporting,
- Reporting of Renewals Spend, and
- Renewals Project Churn.

Each of these areas of feedback will be addressed in the renewals planning review paper which has been drafted and is due for finalisation by 30 November 2013.

Collate Suggested Renewals Planning Improvements from the QCA's consultants (1.2.3)

The key themes framing the consultant suggestions from the QCA's Final Report are:

- Portfolio approach to planning,
- Condition and risk assessment,
- Frequency of condition assessments,
- Renewals planning period,
- Incorporation of Technological Advances,
- Exhaustiveness of condition assessments,
- Bill of Materials and Escalation Rates, and
- Indirects and Overheads.

Each of these areas of feedback will be addressed in the renewals planning review paper which has been drafted and is due for finalisation by 30 November 2013.

Conclusion for Renewals Planning items 1.2.2 and 1.2.3

SunWater has:

- Documented customer and QCA feedback in response to the prototype NSPs relevant to renewals planning,
- Collated renewals planning suggestions from the QCA's consultants from the Final Report on irrigation pricing, and
- Incorporated this feedback into the renewals planning review, which is due for finalisation by 30 November 2013.

Review Operating Costs Planning (1.3)

Collate Suggested Operating Planning Improvements from the QCA's consultants (1.3.2)

The key themes framing the consultant suggestions from the QCA's Final Report are:

- Documentation of the Strategic Planning Framework,
- Adopting a more systematic approach to forecasting operating costs,
- Documentation of forecasting methodology and assumptions,
- Reporting against plans and budgets, and
- Historical data accuracy.

Each of these areas of feedback will be addressed in the operating planning review paper which is due for finalisation by 30 November 2013.

Conclusion for Operating Planning item 1.3.2

SunWater has:

- Collated operating planning suggestions from the QCA's consultants from the Final Report on irrigation pricing.

Annual Production of NSPs (item 2)

SunWater flagged in the July implementation plan update that it was considering separating annual performance reporting from annual NSP production. SunWater has decided to produce annual Performance Reports as soon as practicable after financial year-end and has recently published Performance Reports for each service contract on SunWater's website¹. This means that customers will have access to SunWater's prior year performance a few months after the end of each financial year, rather than waiting for the annual NSPs in approximately March of each year.

Renewals Variance Reporting (2.2)

Extract Renewals Cost Data and Perform Variance Analysis (2.2.1-2.2.4)

SunWater has extracted actual costs for the 2012/13 year from the SAP enterprise accounting system and performed variance analysis across these numbers for each service contract. The original implementation plan proposed that variance analysis would be calculated against SunWater budget, but it became clear that the QCA targets were the more relevant benchmark.

SunWater has built variance reporting capability into its NSP Reporting Tool, which was discussed in the July implementation plan update. Variance reporting has been captured in the Performance Reports for each service contract which are now available on SunWater's website. These results will also be included in the annual NSPs.

¹ www.sunwater.com.au/schemes/nsp/annual-nsp-and-performance-reports

Conclusion for Renewals Variance Reporting items 2.2.1-2.2.4

SunWater has:

- Satisfied the QCA's recommendation for SunWater to present renewals cost variance reporting for prior year performance to customers; this has occurred via annual Performance Reports and will also be included in the annual NSPs.

Operating Variance Reporting (2.3)

Extract Operating Cost Data and Perform Variance Analysis (2.3.1-2.3.4)

Operating expenditure variance analysis has been performed in the same manner as renewals variance analysis, using the same NSP Reporting Tool described above. This operating variance analysis appears in the Performance Reports for each service contract, which have been published on SunWater's website. These results will also be included in the annual NSPs.

Conclusion for Operating Variance Reporting items 2.3.1-2.3.4

SunWater has:

- Satisfied the QCA's recommendation for SunWater to present operating cost variance reporting for prior year performance to customers; this has occurred via annual Performance Reports and will also be included in the annual NSPs.

Customer Consultation on Annual NSPs (2.4)

Produce and Publish Annual NSPs (2.4.2-2.4.6)

In the July progress report, SunWater raised the prospect of producing annual NSPs earlier in the calendar year. After reviewing SunWater's planning and budgeting processes, SunWater has amended the delivery date of the annual NSPs to the end of March each year. The delivery dates in the implementation plan have been updated accordingly, as shown in the table below.

Conclusion for Annual NSP items 2.4.2-2.4.6

SunWater has:

- Amended the implementation plan so that items 2.4.2 to 2.4.6 now reflect the dates for the next round of annual NSP production.

No.	Action	Original Date	New date
2.4.2	The output from recommendations 2.1 to 2.3 to be collated by service contract for inclusion in the annual NSPs along with additional NSP data and text. NSPs to incorporate lessons from prototype NSP production in 2012/13.	30 Sept 2013	31 Dec 2013
2.4.3	Publish annual NSPs on SunWater's website.	31 Oct 2013	31 Mar 2014

2.4.4	Notify all registered customers that the NSPs have been published and seek feedback from the customers.	31 Dec 2013	31 Mar 2014
2.4.5	Analyse customer feedback and make any necessary adjustments to the NSPs.	31 March 2014	30 April 2014
2.4.6	Respond to customer feedback on the website.	30 April 2014	15 May 2014

Improved Information Systems for Operating Costs (3.1)

Propose Changes to Financial Data Categorisation (3.1.2)

Consult on these Changes and Implement (3.1.3 & 3.1.4)

As reported in the July update for the Implementation Plan, SunWater’s information systems are already able to provide the required cost data to allow SunWater to report directly against the QCA targets from the irrigation pricing review. Therefore there were no specific changes required to SunWater’s financial data categorisation in order to satisfy the intent of the QCA’s recommendation for “Improved Information Systems for Operating Costs”.

What SunWater has done is to build a NSP Reporting Tool in Excel to improve the reporting of operating costs. The reports generated will help SunWater management attain the operating efficiencies required to meet the QCA targets and allow SunWater to report against these targets, as demonstrated in the recently published NSP Performance Reports.

The development and use of the new NSP Reporting Tool has highlighted that some transactions have been incorrectly coded in the past and therefore mis-allocated within SunWater’s cost hierarchy. There will always be some amount of human error associated with inputting data into any information system; however, the increased reporting focus is leading to improvements in accuracy over time.

SunWater consulted with the QCA and customer groups on these changes. The NSP Reporting Tool has been built and is being used to support reporting activities, such as the recent production of the NSP Performance Reports. This tool will continue to be developed over time to respond to changes in the business and changes to reporting requirements.

Conclusion for Improved Information Systems for Operating items 3.1.2, 3.1.3 & 3.1.4

SunWater has:

- Developed a NSP reporting tool to support annual NSP production that aggregates the detailed SAP cost information into reports that are directly comparable with the QCA efficiency targets,
- Worked to reduce the amount of mis-coded financial transactions to improve the quality of the reported cost information going forward,
- Consulted with the QCA and customer groups on the proposed approach to improved cost reporting, and
- Implemented the changes through the development of the NSP Reporting Tool and subsequent production of the NSP Performance reports for each service contract.

Item 3.1 of SunWater’s implementation plan has now been completed.

Separate Identification of Drainage Costs (3.3)

Identification of Process and System Changes (3.3.4)

Further to the July 2013 update to the QCA, SunWater has continued to make improvements to the allocation of drainage charges by separating out costs between channels and drains. As stated in the July update, SunWater's objective is to accurately allocate costs to drainage within the SAP system wherever practicable and believes the majority of the drainage costs will be captured against drainage profit centres within SAP by the end of 2013/14.

It is likely that some shared costs will remain with the channels and SunWater will use a standard allocator outside of SAP to allocate these residual shared costs between channels and drains for the next pricing review. SunWater believes an appropriate allocator is the land area of drains versus channels; land area data is maintained in SunWater's property management database. The standard allocation process (if required) will not form part of the general ledger accounts but will be maintained off-line in a spreadsheet tool designed for the purpose.

Conclusion for Drainage Cost item 3.3.4

SunWater has made further improvements in drainage cost allocation to drainage profit centres expects to implement further improvements over the remainder of 2013/14. Monitoring of this cost allocation has now become part of regular business practice.