



QCA Pricing Practices Recommendations  
January 2014 Update on  
SunWater Implementation Plan

January 2014

SunWater has continued implementing the QCA's Pricing Practices Recommendations according to the Implementation Plan. This update covers the work completed between October and December 2013 (note: the numbering in this update references SunWater's Implementation Plan).

## **Improved Planning (item 1)**

The two deliverables from this section of the Implementation Plan for Oct-Dec 2013 were the draft Renewals Planning Review and the draft Operating Planning Review. SunWater believes the suggested actions from these two documents will address the feedback from consultants and stakeholders and lead to improved planning. This has largely been confirmed by the QCA, who have suggested only a few minor adjustments to SunWater's approach.

## **Review Renewals Planning Process (1.2)**

### **Draft Renewals Planning Review (1.2.4) and Consult with the QCA (1.2.5)**

The QCA and their appointed consultants generally provided positive feedback on SunWater's renewals planning processes and practices at the last price review. There were, however, some suggested improvements made by the QCA and their consultants in the QCA's irrigation pricing final report; SunWater has also received feedback from its customers in response to the prototype NSPs published in April 2013. SunWater addressed these suggestions in the proposed improvements contained in the draft Renewals Planning Review submitted to the QCA in November 2013.

The following subject areas are covered within the review:

- 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,
- Indirects and Overheads,
- Operating Cost/Renewals Spend Trade-off,
- Reconciling Renewals Target Spend to the QCA Final Report,
- Real vs. Nominal Cost Reporting,
- Reporting of Renewals Spend, and
- Renewals Project Churn.

SunWater has consulted with the QCA on the review and has received positive feedback to the proposed improvements. The QCA's suggested changes are limited to the Condition and Risk Assessment section of the review and SunWater will address these suggestions in the final Renewals Planning Review before providing a copy to Government and the QCA.

## **Conclusion for Renewals Planning items 1.2.4 and 1.2.5**

SunWater has:

- Addressed renewals planning feedback from the QCA's consultants and from the NSP process in the draft Renewals Planning Review, and
- Consulted with the QCA and received their feedback on the review.

## **Review Operating Costs Planning (1.3)**

### **Draft Operating Planning Review (1.3.3) and Consult with the QCA (1.3.4)**

The QCA and their appointed consultants were generally satisfied with the intent of SunWater's approach to operating planning for the last price review but criticised the lack of documentation of the assumptions underlying the cost forecasts. Suggested improvements were made in the QCA's irrigation pricing final report and also contained in feedback from the production of the prototype NSPs in April 2013. SunWater has recognised the criticisms and proposed a range of improvements to SunWater's operating planning process which are discussed in the draft Operating Planning Review. The following subject areas are covered within the review:

- Strategic planning framework,
- Systematic approach to price path forecasting,
- Historical data accuracy,
- Documenting the forecasting methodology and assumptions,
- Improvements to the management of labour cost information, and
- Real vs. Nominal Cost Reporting.

SunWater has consulted with the QCA on the Operating Planning Review and has received positive feedback to the proposed improvements. The QCA's suggested changes are limited to the Management of Labour Cost Information section of the review. SunWater will address these suggestions in the final Operating Planning Review.

## **Conclusion for Operating Planning item 1.3.3 and 1.3.4**

SunWater has:

- Addressed feedback from the QCA's consultants and from the NSP process in the draft Operating Planning Review, and
- Consulted with the QCA and received their feedback on the review.

## **Annual Production of NSPs (item 2)**

SunWater has begun planning for the 2015 year with the annual NSPs scheduled to be produced by the end of March 2014.

## **Inclusion of Renewals Options Analysis in Annual NSPs (2.1)**

### **Collate Options Analyses Completed for Qualifying Projects (2.1.3)**

To date, SunWater has completed the first draft of options analyses for five of the six material projects identified for the 2014/15 year. Projects were identified as material against a snapshot of the renewals plan taken in November 2013. The options analyses are draft and are likely to be further refined during the renewals planning process leading to the production of the NSPs in March 2014. There may also be changes to the recommended approach for some projects arising from SunWater's customer consultation on the NSPs.

### **Conclusion for Operating Planning item 2.1.3**

SunWater has collated the draft options analyses for qualifying material projects in readiness for NSP production in March 2014.

## **Renewals Variance Reporting (2.2)**

### **Systematise Renewals Variance Reporting in SAP, or other Software Package (2.2.5)**

As reported in the October 2013 update to the QCA, SunWater has built its NSP Reporting Tool in Excel to track variance between actual renewals spend and the QCA targets. This tool was used to produce the renewals data reported in the NSP Performance Reports published in October 2013.

### **Conclusion for Renewals Variance Reporting item 2.2.5**

SunWater has developed the NSP Reporting Tool to summarise the detailed SAP operating cost information into reports that are directly comparable with the QCA efficiency targets.

## **Operating Variance Reporting (2.3)**

### **Systematise Operating Variance Reporting in SAP, or other Software Package (2.3.5)**

SunWater has built the 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 NSP Performance Reports published in October 2013.

### **Conclusion for Operating Variance Reporting item 2.3.5**

SunWater has developed the NSP Reporting Tool to summarise the detailed SAP renewals cost information into reports that are directly comparable with the QCA efficiency targets.

## **Customer Consultation on Annual NSPs (2.4)**

### **Collate Options Analyses and Variance Analysis for Annual NSPs and Incorporate Lessons from the 2014 NSP Process (2.4.2)**

As discussed earlier in this update, SunWater has collated the required options analyses for inclusion in the Annual NSPs. SunWater has also completed variance analysis for operating and renewals and this was presented in the October 2013 Performance Reports and will be included again in the next round of annual NSPs. Feedback from the 2014 NSP process has been incorporated into the template for the 2015 NSPs.

#### **Conclusion for Annual NSP items 2.4.2**

SunWater has:

- Collated the options analyses and variance reporting and is on target for the production of 2015 Annual NSPs in March 2014, and
- Incorporated feedback from the 2014 NSP process into the template to be used for the 2015 NSPs.

## **Improved Recording and Analysis of Labour Cost Information (3.2)**

### **Review Current Labour Cost Systems and Processes (3.2.1), Identify Improvements (3.2.2) and Consult with the QCA (3.2.3)**

As mentioned earlier, SunWater incorporated the review of labour cost information capture in the draft Operating Planning Review submitted to the QCA. SunWater has identified that it already has adequate systems and processes to capture labour costs and that improvement in labour cost capture is likely to come from better use of existing systems. This will be achieved through staff training, improved reporting and internal checking. To this end, SunWater has developed a Labour Tracking Tool in Excel to support the monitoring of actual versus budgeted labour costs.

SunWater has consulted with the QCA on this subject via the draft Operating Planning Review and will address the QCA's suggested changes to labour cost allocation in the final version of the review.

In addition to the subject of labour cost capture during the price path, there was also criticism of SunWater's labour cost forecasting for the last price review. The main criticism being that the rationale for forecasting labour for each employee was not documented and, that in general, insufficient supporting information was provided to the consultants to allow them to review labour costs forecasts. To address these concerns, SunWater will take a more systematic approach to forecasting operating costs at the next price review. SunWater will base the forecasts on at least five years of historical data and will clearly document the approach to forecasting and any necessary data cleansing. This forecasting is likely to occur at the activity level but, if this forecasting occurs at the individual employee level, the same disciplines will be applied.

#### **Conclusion for Labour Cost items 3.2.1 - 3.2.3**

SunWater has:

- Undertaken to continue to improve labour cost allocations through staff training, improved reporting and internal checking,

- Developed a Labour Tracking Tool to support variance analysis of labour costs throughout each year,
- Undertaken to base future price path labour cost forecasts on at least 5 years of historical cost data, and will clearly document and justify any data cleansing actions, and
- Consulted with the QCA and received their feedback on labour cost allocation.