

May 2004 | **Economic Regulation of the
Victorian Water Industry
Consultation Paper No.2**

**DRAFT PERFORMANCE REPORTING
FRAMEWORK**

**METROPOLITAN AND REGIONAL
BUSINESSES**

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1 INTRODUCTION

In February 2004, the Commission released Consultation Paper No. 1 on *Economic Regulation of the Victorian Water Industry* in which it noted that it has an explicit function to monitor, report and audit the performance of the regulated water industry.

As part of that paper, it noted its intention to establish a performance reporting regime to apply to each of the 24 Victorian water businesses. It also set out its preliminary views in relation to the guiding principles and broad areas of coverage that the reporting regime should seek to cover. The underlying reasons for establishing a performance monitoring and reporting regime are to:

- inform customers about the level of service they are receiving and identify reasons for performance
- make comparisons between businesses by gauging relative performance within an industry (comparative competition) or with businesses performing comparable operations in other industries
- identify baseline performance of individual businesses and provide incentives for improvement over time
- provide information and data for developing regulatory standards (or targets) where required and for ongoing assessment of compliance with such standards
- inform the decision making processes of regulatory agencies, water businesses and government.

In March 2004, the Commission released a Workshop Discussion Paper outlining its proposed approach regarding the development of performance monitoring arrangements for Melbourne Water, the three metropolitan retailers and the regional urban water businesses.¹ In doing so, it proposed establishing a Working Group comprising representatives from a number of water businesses, customer groups and government agencies to assist in identifying relevant and meaningful indicators.

A public workshop was held on 19 March 2004 to provide interested parties the opportunity to express their views on the Commission's proposed approach to the performance reporting framework and to also hear from Commission staff and other stakeholders about the intended approach for developing performance reporting arrangements.

In response to the Commission's proposals, there was strong support for the proposed establishment of a broad based Working Group to assist in developing a set of performance indicators and definitions, though some stakeholders expressed concern about the available timeframe. Accordingly, the Commission called for and received nominations to participate in the Working Group process. The Working Group included representatives of metropolitan and regional water businesses, Melbourne Water, a number of government agencies, and customer representatives' bodies. A list of members is set out in Attachment A.

¹ The Commission is separately consulting on the nature of performance indicators to apply to the five rural water businesses given the different nature of their services.

The Working Group met five times from April to mid-May. In addition, a separate sub-group meeting was held to discuss indicators specific to Melbourne Water and its interface with the metropolitan retail businesses.

Despite the relatively tight timeframe, the Working Group process was highly cooperative and constructive. There was generally consensus on the appropriateness of proposed performance indicators set out in the draft framework, albeit that there were some areas of coverage that the Working Group considered were difficult to develop relevant and meaningful indicators for. These are discussed further section 3.4.

This Consultation Paper:

- Provides an overview of the proposed set of performance indicators (the detailed performance indicators and definitions are set out in Attachment B)
- Highlights a number of key issues related to the performance indicators and other matters raised by the Working Group
- Summarises how interested parties can comment on the proposed performance indicators and definitions and other matters related to the implementation of the proposed framework.

2 OVERVIEW OF PROPOSED INDICATORS

The draft performance indicators and definitions developed by the Working Group are set out in Attachment B. The proposed indicator set reflects the generally agreed views of the Working Group, and has been reviewed and endorsed by the Commission. *However, it is a draft set of indicators* and the Commission is releasing it with a view to encouraging broader public comment and debate on whether the indicators are appropriate.

Once finalised, the Commission proposes to use these indicators to monitor and report the performance of Melbourne Water, the three metropolitan retailers and the regional urban businesses (as indicated) from 1 July 2004.

In assessing the extent to which the data and indicators were appropriate, the Working Group was guided by the following principles:

- performance indicators need to be relevant to the nature of the services provided by each business
- performance indicators need to be meaningful and relate to key issues of concern to both businesses and their customers
- performance indicators need to be defined and collected on a consistent basis across businesses to provide a valid measure of actual performance and to aid reasonable comparisons
- the accuracy and reliability of information provided by businesses must be verifiable
- it is desirable to identify whether there is scope for greater national consistency in reporting and comparison, to facilitate national assessment of relative performance
- costs associated with collecting information and data need to be balanced against the benefits of collecting that information. That is, it will be necessary to ensure that the framework is not excessively onerous or costly to implement by focusing on a reasonable range of meaningful indicators.

In developing the proposed set of performance indicators, the Working Group gave significant consideration to:

- performance indicators and definitions that have applied to the metropolitan water businesses in various forms since 1995. These arrangements were identified in both Consultation Paper No. 1 and the Workshop Discussion Paper as providing an appropriate starting point for developing an indicator set to apply to all water businesses.
- reporting requirements of other government agencies such as the Environment Protection Authority (EPA), the Department of Sustainability and Environment (DSE) and the Department of Human Services (DHS). The need to where possible streamline reporting arrangements was a key theme from early stages of the consultation process.
- benchmarking activities undertaken by water industry associations such as the Water Services Association of Australia (WSAA) and VicWater, with

attempts made to draw on existing indicators and adopt consistent definitions for given indicators wherever possible.

In comparison to previously collected information, the draft framework provides:

- an increased emphasis on environmental, reuse and recycling, affordability measures and development activities — consistent with the Commission’s regulatory framework and policy developments in these areas
- greater disaggregation for information on network reliability and complaints — reflecting the more varied supply arrangements across the state
- for the removal of some performance indicators that were not considered meaningful— such as sewer inflow and infiltration, trade waste customer compliance, and a reduced indicators of sewage treatment plant performance
- for greater consistency and coordination between various government and regulatory agencies in relation to collection and reporting of information.

The proposed framework includes indicators related to the following broad areas of coverage:

- **baseline explanatory data** — this includes explanatory or contextual data such as customer numbers, system lengths, number and type of water and sewage treatment facilities
- **quality** — this includes indicators of drinking water quality, focussing on the percentage of customer receiving supplies meeting relevant standards
- **network reliability and efficiency** — this includes indicators of the frequency, duration, responsiveness to, and rectification of water supply interruptions, sewer blockages and spills as well as levels of leakage and losses from water supply systems
- **water consumption, reuse and recycling** — these indicators monitor trends in water consumption and the level of reuse and recycling of effluent and biosolids
- **environmental issues** — these indicators identify compliance with discharge requirements from sewage treatment plant licences, the incidence of major sewage spills and also include a new measure of the level of CO₂ equivalent emissions
- **customer responsiveness and service** — these indicators examine customer complaints, call centre performance and include new measures that examining the processing of development applications and information statements
- **affordability** — these indicators measure the level of restrictions and legal actions for non-payment of bills, the availability of instalment payments and includes new measures to monitor the level of applications and approvals for hardship grants.

Financial performance indicators were not considered by the Working Group as the nature of this information will be considered in the context of reviewing the businesses proposed Water Plans to apply from 1 July 2005.

The Commission invites stakeholders to provide feedback on the proposed set of performance indicators and their definitions.

3 KEY ISSUES

Over the course the consultation process a number of issues were identified as being relevant for broader discussion. These are addressed below.

3.1 Minimising costs of performance reporting

In response to earlier consultation papers on the performance reporting framework, a number of water businesses noted that they already report information to a range of agencies and industry associations. They encouraged the Commission to minimise the cost of administering its performance reporting framework by, wherever possible, reducing duplication and inconsistencies between existing reporting arrangements.

The Commission has been conscious of the need to minimise the costs associated with any additional information requirements. In doing so, it has sought to work with the EPA, DHS, DSE and the Energy and Water Ombudsman (EWOV) to identify opportunities to improve the consistency of information and to coordinate the collection and reporting of information.

The proposed framework seeks to minimise the costs associated with performance reporting by, wherever possible:

- improving consistency in the nature of indicators and definitions to be applied across various government agencies, such as through consistent definitions between agencies for sewage treatment plant compliance, sewerage spills, water recycling and drinking water quality
- drawing on the existing information collected by these regulatory agencies, and where possible exchanging the information directly rather than requiring multiple reporting by businesses of the same information to various agencies. For example, sewage treatment plant compliance information will be gathered directly from EPA and drinking water quality compliance from DHS.

In addition, the Commission has proposed working with EPA and DHS to develop a consistent reporting template to minimise the costs associated with water businesses producing information in different formats for different agencies.

The Commission has also discussed recently with other Australian water industry regulators whether opportunities exist to achieve some consistency in the reporting of performance indicators nationally. This is consistent with the Commission's facilitating objectives to promote consistency in regulation between States and on a national basis.

The Commission invites stakeholders to comment on whether there are other opportunities to minimise the costs of the proposed performance reporting framework.

3.2 Ability for all businesses to commence reporting

Most of the businesses represented on the Working Group indicated that they already gather much of the performance information that is being proposed as part of the draft framework. Given the high degree of consistency between current reporting obligations and the proposed performance indicators, the Commission believes that most businesses should be in a position to begin collecting information from 1 July 2004.

However, a number of regional businesses noted that they may have some difficulties collecting a small number of the proposed indicators.

Where businesses are unlikely to be able to collect the proposed indicators from 1 July 2004, those businesses are encouraged to discuss transitional arrangements with the Commission and in particular, the earliest possible timeline from which they will be able to collect and report the information.

Where the introduction of performance monitoring and reporting arrangements is likely to require upgrading IT systems or imposes other increased costs on water businesses, it will be necessary for the businesses to clearly identify the nature and extent of these costs as part of their proposed Water Plans.

The Commission seeks comment from businesses about whether there are any performance indicators that they are unlikely to be able to collect from 1 July 2004.

3.3 Affordability indicators

In the Commission's previous consultation papers, it noted the importance of including indicators relating to the affordability of water and sewerage services for customers.

This was supported by all of the members of the Working Group, and a number of key indicators have been included as part of the proposed framework, including the level of restrictions and legal actions for non-payment, the length of time restrictions were left in place, the average debt for restrictions and legal actions pursued, the availability of payment instalment plans and the number of applications and approvals for hardship grants.

Some members of the Working Group expressed the view that the performance framework should go further in terms of collecting information related to affordability issues. In particular, it was suggested that the following indicators could be disaggregated to reflect households receiving concessions versus those not receiving concessions:

- the average consumption for households
- the average bills for households
- information on restrictions, legal actions and other measures of affordability.

A number of Working Group members questioned the extent to which disaggregating information on the basis of customers who received concessions provided a meaningful indicator of affordability. In particular, distinguishing the incidence of restrictions and legal actions between concession and non-concession households was considered by some businesses to not be particularly meaningful as their collection/restriction processes closely examined each customer's individual circumstances before taking action. In addition, a number of businesses expressed the view that it would be difficult to accurately identify concession customers and their usage patterns.

Given that there was not widespread support or consensus amongst Working Group members on this issue, the Commission has not at this stage included the requirement for such information to be further disaggregated to reflect concession and non-concession customers.

However, it seeks further comments and views from stakeholders about whether:

- *the proposed indicators sufficiently capture issues related to affordability*

- *further disaggregation of the existing indicators outlined above on the basis of concession and non-concession customers would be meaningful and practical to collect*
- *there may be other more meaningful affordability indicators that should be considered for inclusion in the performance reporting framework.*

The Commission notes that the question of affordability of water and sewerage services for customers (particularly low income and vulnerable customers) is an issue that is worthy of more detailed research and consideration. Accordingly, it will give thought to whether there may be scope to better inform the debate about affordability issues by undertaking some research as part of its work program — preferably coordinated jointly with the water businesses, customer representatives and relevant government agencies. The scope for the Commission to undertake and consult on any detailed research on this issue is likely to be limited until after the assessment of the Water Plans is completed.

The Commission seeks comment from interested parties on whether undertaking research on affordability issues would be useful in contributing to the broader debate about affordability of water services.

3.4 Future reviews of indicators

The Commission agrees with the comments made by some businesses in response to earlier consultation that performance indicators and definitions should be *stable over time* to facilitate the collection of time-series data and allow trends in performance to be monitored. Having said that, it will be necessary to review the performance indicators over time to ensure that they remain relevant and meaningful, address any inconsistencies in information collection across businesses and to take into account future developments.

The Working Group also identified a number of areas where performance indicators were desirable but were not able to be developed as a part of this process. These included:

- **Resource security** — while it was generally agreed a measure of resource security was desirable, no uniform measure is currently adopted across the water sector. The Commission understands that WSAA is currently examining the scope for introducing measures of resource security, which the Working Group suggested could potentially be incorporated into this framework at a later date.
- **Trade waste** — while the Working Group agreed that it may be appropriate to develop indicators to measure trade waste activities, the current indicators were generally considered to not be particularly meaningful and had the potential to create adverse impacts (for example, measuring water businesses performance by the percentage of customers complying with agreements can discourage businesses from actively monitoring the discharges of high risk customers). However, the EPA has identified two trade waste indicators for consideration (these are included in Attachment B).
- **Waterways and drainage services** — the Working Group concentrated on the development of performance indicators for water and sewerage services. Additionally, Melbourne Water performs waterways and drainage functions with these responsibilities detailed through an Operating Charter. Melbourne

Water has suggested that suitable indicators for performance monitoring of these activities could cover:

- the percentage of new developments meeting the flood protection standards
- the percentage reduction in nitrogen loads to Port Phillip Bay from wetlands
- the percentage achievement of annual targets assigned to Melbourne Water from the Regional River Health Strategy
- the percentage of drainage development applications processed within specified timeframes.

Additionally, the Working Group noted the need to consider the impact of the Government's White Paper on water policy and the Water Plan approval process both of which may give rise to a need for certain additional performance indicators.

Also, a number of regional water businesses have small rural water networks and Melbourne Water has a number of diversion customers. The Commission is separately developing performance monitoring arrangements to apply to rural water businesses and it is likely that some of the measures developed in this process will be applicable to these businesses.

3.5 Auditing and reporting arrangements

The Commission proposes adopting reporting arrangements similar to those currently applied to the metropolitan water retailers. This involves:

- businesses reporting information in accordance with performance indicators and definitions
- the quarterly and annual submission of data using standardised templates. The Commission proposes to release reporting templates in July 2005
- undertaking regulatory audits to verify the accuracy and reliability of reported information
- the Commission analysing the reported data in its annual performance report. In doing so, it provides each business with an opportunity to comment on the draft report to enable it to verify and explain performance outcomes and details of service innovations. Following this, the Commission publicly releases its report.

The first report on the performance of Melbourne Water, the metropolitan and regional water businesses is likely to be released in December 2005.

The Workshop Discussion Paper noted that the first regulatory audits are not expected to be undertaken before the second half of 2005. In the Working Group businesses sought guidance as to the number of audits they should allow for in their Water Plans. At this stage, businesses should allow for at least two audits over the first regulatory period. It is likely that all water businesses will be audited in 2005-06.

4 NEXT STEPS

As noted throughout this paper, the attached draft performance reporting framework has been developed through a Working Group process and is now released for broader public comment prior to being finalised.

Interested parties are invited to provide feedback on the framework to apply for the metropolitan and regional urban water businesses in one of two ways:

Attend a Public Workshop

The Commission will hold a public workshop on **Monday 7 June 2004** at the Commission's offices.

The purpose of the workshop will be to provide an overview of the performance indicators and definitions and answer any questions. In addition, the Commission also encourages interested parties to raise any issues at this workshop, which the Commission will summarise and make available on its website as soon as possible after the workshop. This is intended to reduce the need for interested parties to provide written submissions.

and/or

Provide written submissions or comments

If you are not able to make it to the public workshop and/or have additional comments that you wish to express to the Commission in relation to the draft performance reporting framework, you may provide written comments by **Wednesday 16 June 2004**. They can be sent (preferably) by email to water@esc.vic.gov.au, or by mail to:

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Follow-up Working Group meeting

The comments received at the workshop and any written comments received in response to this paper will be considered by the Working Group members at a meeting on **Thursday 24 June 2004**. This final meeting will assist in forming recommendations to the Commission regarding the final set of performance indicators to apply to the metropolitan and regional urban water businesses.

For further queries in relation to the matters raised in this paper, please contact Marcus Crudden, Project Manager (Performance Reporting) on ph:9651 3917.

Finalisation of the performance framework

The Commission anticipates releasing the final performance reporting framework to apply to the metropolitan and regional urban water businesses in July 2004.