REGULATED
INDUSTRIES
COMMISSION

INFORMATION REQUIREMENTS:

BUSINESS PLAN

WATER & SEWERAGE AUTHORITY

January 2007

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EXECUTIVE SUMMARY

The purpose of this document is to provide guidance to the service provider, the Water and Sewerage Authority, on the preparation of a price control proposal and outline the information required to support the proposal, in the event of the service provider's consideration of an application for a price review. The guidance has been designed to ensure that a consistent framework is applied in the RIC's decision-making process.

In the document, **Setting Price Control: Framework and Approach (April 2005)**, the RIC set out the approach that it would follow to come to a final decision on the price controls. A key feature of this process is an invitation to the service provider to formulate a price control proposal. The price control proposal should set out how the service provider plans to invest in its network to meet the service needs of its customers and how it intends to recover the cost of providing the service through its tariffs and charges.

When submitted to the RIC, this proposal of the service provider will form the basis for the Draft Determination and stakeholder consultation. The stakeholder consultation that the RIC will undertake is an opportunity for consumers and other stakeholders to express their views and have input on the quality and reliability of the services they will receive over the regulatory control period and the prices they will pay for the services.

The price control proposal of the service provider must include, among other things, information on the following:

- Demand forecasts;
- Revenue requirement:
    - Capital expenditure requirements;
    - Operating and maintenance expenditure requirements;
    - Cost of capital financing; and
- Service levels.

An overview of the information that should be provided by the service provider for each of the above areas is provided later in this document.

1. INTRODUCTION

1.1 Background

The Regulated Industries Commission (RIC) is, among other things, responsible for establishing the principles and methodologies for determining rates, monitoring the performance and efficiency of service providers and setting and enforcing standards of service. The RIC Act No. 26 of 1998 requires the RIC to establish the principles and methodologies for determining rates for a maximum period of five (5) years.

The process of assessing and determining proposed prices involves:

- The identification of service requirements, standards and obligations to be delivered over the regulatory period;
- The establishment of forward-looking revenue requirements for efficient delivery of services over the regulatory period; and
- The ensuring of proposed prices that are sufficient to recover the revenue requirement over the regulatory period.

An integral part of this process is the development and submission of a Business Plan by the service providers in support of the exercise of setting price limits and taking other associated decisions. The Business Plan will form a basis for the RIC's assessment of the proposed revenue requirement and resulting determination of proposed prices to be applied over the regulatory period in accordance with the requirements of the RIC Act.

1.2 Role of the Business Plan

The role of the Business Plan, the process for developing it and the information expected therein is discussed below. The Plan should provide the justification for the service provider's submission relating to price control limits and should:

- explain in a consistent way the service provider's application for price limits, its costs and bill implications;
- set out its overall strategy and identify in sufficient details all the strategic issues the service provider faces for the proper carrying out of its functions;

- include well-founded forecasts of costs (investments and maintenance expenditure) and revenue to ensure an adequate balance between supply and demand in the provision of service to customers;
- provide estimates of the service provider's potential to reduce costs through improved efficiency;
- establish timelines and identify outcomes to be achieved over the regulatory control period so that progress can be measured against those milestones; and
- inform of all the relevant factors the RIC needs to consider in determining fair and reasonable price limits.

As part of the price review process, a number of issues will need to be resolved. The RIC intends to consult on these issues through a series of consultation papers. The issues relate to the regulatory framework, process and approach the RIC intends to take in assessing the service provider's submission. Some of the issues for consultation include:

- the form of price control;
- the length of the regulatory period;
- dealing with controllable and uncontrollable cost items;
- tariff structures, subsidies and mechanisms for assisting the lower income groups;
- miscellaneous charges and customer contributions; and
- incentive mechanisms.

The comments received in response to these issues will assist the RIC in the finalization of its determination.

Structure of this Document

The remainder of this document is structured as follows:

- Section 2 describes the process of developing and assessing the Business Plan.
- Section 3 discusses the contents of the Business Plan.
- Section 4 discusses the requirements of the Monitoring Plan.

2. PROCESS FOR DEVELOPING AND ASSESSING THE BUSINESS PLAN

Broadly, there are three stages in developing and assessing the proposed Business Plan:

- Establishment of Information Requirement and Clarification:
  - Consultation between the RIC and service provider on the development of the Plan.
  - Finalisation of any policy issues and other additional information requirements.

- Preparation of draft Business Plan:
  - Service provider's preparation of draft Plan.
  - Service provider's consultation, if necessary, with the customers, Minister/Ministry and the RIC on proposed plan and any required amendments.

- RIC's Assessment of Proposed Plan:
  - Submission of final plan to the RIC.
  - RIC's release of its **Draft Determination** for public comments
  - RIC's release of its **Final Determination**.

The RIC strongly believes that there is merit in consulting on a number of key issues to facilitate the service provider's preparation of its proposals, including:

- the information and approach that could be used by service providers to develop demand forecasts;
- a demonstration that proposed expenditure is efficient;
- measures to pursue efficiency improvements;
- provision of appropriate return on assets; and
- tariff design and structure.

These issues are discussed in detail in the document, **"Setting Price Control: Framework and Approach"**, which also is being released for public comments.

3. CONTENTS OF THE BUSINESS PLAN

The Business Plan should contain three parts.

- Overview
- Main Submission (Detailed Justification)
- Summary

3.1 Overview

The overview is a stand-alone summary of the service provider's overall strategy for the proper execution of its functions over the regulatory control period and beyond to ensure the provision of adequate services to customers, including its service performance in recent years, impediments to performance and the state of its assets. In short, the overview provides an opportunity for the service provider to summarize the main points of its proposal and to draw attention to any particular issue relevant to the price review decision-making process. At a minimum, the overview should:

- set out, in summary, the key activities and programmes/projects the service provider proposes to undertake over the control period, and the outputs and milestones to be achieved during the period, including its assessment of the environment and the parameters within which it will have to operate during the control period and beyond;
- set out the price limits sought and how these translate into average bills for each class of customer;
- outline how the service provider has taken into consideration the interests of customers on the overall balance between service levels, prices and priorities for improvements;
- include a series of summary tables covering the overall strategy, financial projections, asset values and expenditure, including the scope for improving efficiency and existing practices; and
- state how the service provider proposes to finance its strategic objectives and the revenue that will be necessary to ensure financial viability.

3.2 The Main Submission

The main submission is a detailed justification of the strategy and various issues/options identified in the **Overview**. The submission will comprise four (4) sections:

- Service Provider and the Operating Environment – A Summary;
- Specific Information Requirements;
- Efficiency Improvements; and
- Maintaining service to customers.

3.2.1 Service Provider and the Operating Environment – A Summary

This Summary should focus on:

- Assessment of the likely operating environment during the regulatory control period and beyond;
- Improvements in service that it plans to deliver;
- Strategies for the achievement of supply/demand balance;
- Achievements to date with respect to services to customers;
- Maintenance of its network and assets;
- Key forecasts over the period; and
- Risks and uncertainties it faces and how it intends to manage them.

In making policy decisions for the price limits, the service provider must take account of the potential effects on service affordability.

3.2.2 Specific Information Requirements

This section requires the service provider to furnish a comprehensive set of information on expenditure and revenue forecasts, demand projections, plans to finance their operations, the consequences for customers bills, financial projections, existing loan agreements, cost of capital, required rate of return and capital structure. These issues are discussed below.

3.2.2.1 *Demand Forecast*

Demand forecasts are a central element of the Price Control review assessments and decision-making, as they underpin expenditure requirement forecasts, forecast revenue requirement and the price control modeling and decision-making. They are of particular importance in order to propose the prices required to recover the revenue needed to deliver prescribed services over the regulatory period. Demand forecasts are also a key determinant of capital and operating expenditure – as they drive the level of new connections and the need to augment existing systems. Accurate forecasts will reduce price volatility for customers and the risk of short-term mis-match between revenues and costs. In assessing the proposed prices, the RIC will, therefore, expect that the demand forecasts are reasonable and based on sound information and assumptions.

In preparing demand forecasts, the RIC would expect the service provider to:

- analyze historical levels of demand and identify relevant trends and the major factors that determine the trend and explain any variations;
- recognize and reflect key drivers of demand and supply;
- consult with major customers (e.g. industrial/commercial) about their anticipated requirements;
- take into account Government's initiatives in the housing and industrial sectors;
- consider the likely impact of any changes in tariffs and other demand side management initiatives, such as, reduction in non-revenue water (NRW) and universal metering;
- have regard to country's economic conditions; and
- reflect conservation initiatives.

The RIC expects that the service provider will provide a summary of demand forecasts, and the following:

- information which describes the methodological approach taken;
- the key demand forecasting issues; and
- key assumptions adopted in generating the forecasts.

The RIC also would require independent verification of demand forecasts. At the very least, the RIC will need to be satisfied that the independent verifier engaged by WASA has used a reasonable method and process.

The service provider must provide the following information for the control period:

- Water consumption by Customer Type.
- Customer Numbers by Customer Type.
- Maximum daily and hourly demand during wet and dry season.
- New Customers Connections (Net Customer Increase) broken down as follows:
  - New customer connections
  - Existing customer Numbers
  - Total customer Numbers
  - Net Increase in customer Numbers.

3.2.2.2 Revenue Requirement

One of the common and effective methods for deriving forward-looking estimates of the revenue that the service provider requires to deliver proposed outcomes and meet service standards over the regulatory period is the "building-block" approach. Under this approach, the revenue requirement reflects efficient operating expenditure and a return on and of the regulatory asset base (RAB) updated each year of the control period to reflect any additional capital expenditure net of contributions, asset disposals and depreciation [i.e. Efficient Opex + Depreciation + (RAB + Capex) * Cost of Capital]. A detailed explanation of the components making up the revenue requirement is provided below:

(a) Operating and Maintenance Expenditure

Operating and maintenance expenditure (Opex) is a key component of revenue requirement and is included in the year in which it is incurred. A key issue for the RIC is to ensure that the expenditure forecasts are efficient and reflect a long-term planning horizon.

The Business Plan should clearly outline forecasts of Opex for each year of the regulatory control period, justify forecast expenditure levels, the main drivers of expenditure and evidence of productivity improvements. It also needs to outline the relationship between expenditure and the delivery of outcomes and obligations over the period.

Justification and Key Drivers of Opex

The Business Plan should provide information and justification in support of the proposed Opex and outline the key drivers for both; business as usual expenditure, and expenditure related to the delivery of new obligations. The RIC would expect a high level of justification where the service provider is proposing a significant departure from historical levels.

The price-control proposal of the service provider must include three categories of forecast operating and maintenance expenditure (Opex):

- base operating and maintenance costs. This will exclude guaranteed scheme payments, cess payments and metering expenditure. These are to be shown separately;
- costs associated with the impact of growth (i.e. increase in total customers); and
- changes in the composition of Opex arising from new obligations and functions.

The base Opex for the regulatory control period will be based on the existing obligations and functions of the service provider and will be calculated by using the actual expenditure in 2006, less the cess payments, guaranteed scheme payments and metering expenditure. The service provider must also forecast a rate of change for each year of the regulatory control period which will be used to generate the forecast base Opex for the corresponding period. Additionally, the Opex costs associated with any new obligations and functions are required to be forecast separately.

The service provider must also detail its capitalization policy in its proposal.

Productivity/Efficiency Improvements

The RIC Act requires that the service provider's proposed prices provide for a sustainable revenue stream that does not reflect monopoly rent or inefficient expenditure and that proposed prices provide incentives to pursue efficiency improvements.

One approach to estimating efficient expenditure is to benchmark the performance against other relevant utilities/businesses. The service provider must indicate the methods that will be used for assessing the efficiency of Opex (including general measures of efficiency such as regression analysis and total factor productivity) and provide information on the indicators used for comparison, such as total costs, operating and maintenance costs, overhead costs and other efficiency and productivity measures including comparing costs of particular tasks. Such an approach could be undertaken at "the whole of business level", or for specific components of expenditure, taking into consideration the danger of relying exclusively on benchmarks to assess expenditure forecasts.

Another approach is to review historical expenditure incurred and to then examine the continuing trend over the regulatory period, setting out any reasons for expected departures from trend expenditure.

The service provider must provide Opex breakdown by:

- customer group (for example, industrial, commercial, domestic);
- category (for example, labour, material, rent);
- activity (for example, infrastructure maintenance, customer service);
- on-going controllable and uncontrollable costs and one-off costs or non-recurring operating costs;

- level of overtime of the total payroll costs;
- level of sickness and absenteeism;
- level of total leave (contracted, extended and emergency leave);
- costs relating to building or restoring a brand and sponsorships; and
- wages, salaries and employee related benefits (to be shown separately).

(b) Capital Expenditure Requirements

Capital expenditure (Capex) is another key element of the revenue requirement. Net Capex is added to the regulatory asset base (RAB) and the service provider receives the revenue to repay its debt principal and interest charges through a return **of** the RAB (i.e. depreciation) and return **on** the RAB. In assessing the Capex forecasts, the RIC has to be satisfied that they are efficient and prudent.

The service provider must set out its forecast capital expenditure programme for the regulatory control period and beyond, and provide supporting explanations for the proposed level, time paths of expenditure, complete with due dates for delivery of the projects and the outcomes that will be delivered. The forecasts must be internally consistent and reconcilable with other relevant proposals and supporting information presented in the price control proposal. **All projects/capital expenditure to be funded by the State and/or other bodies must be shown separately**.

To facilitate proper assessment of capital expenditure forecasts, Capex for new obligations and Capex related to business as usual activities must be shown separately. This will help ensure transparency to all stakeholders of the cost of new obligations and hence the impact on rates. The expenditure must be categorized according to:

- **Replacement:** Expenditure to upgrade assets reaching the end of their functional life. The process for the upgrade or replacement of existing assets is based on the assessment of the asset condition, its likelihood of failure, the consequences of failure, and the need for increased capacity.
- **Growth:** Expenditure required to service population growth and new development.
- **Enhancement:** Those projects required to minimise risks and environmental impacts or improve service delivery standards. These projects may be required for example, to meet drinking water standards, reduce known adverse impacts such as odours, mitigate risks to the assets from corrosion, and provide for a lack of standby systems or under-performing assets.
- **Other –** This would include all other capital expenditure.

The service provider will be required to demonstrate how its current and proposed expenditure patterns sit within an asset management programme and how these patterns are consistent with, or vary from, the past. Furthermore, the service provider has to demonstrate that processes are in place to address issues relating to:

- security of supply;
- service reliability and performance;
- ensuring expenditure is prudent and is undertaken efficiently; and
- post-project evaluation.

Finally, the service provider must provide additional information, where necessary, to assist the RIC's understanding. For example, the condition and serviceability of the existing network, the life expectancy of assets, unit costs and plans to ensure that expenditure programme is delivered over the control period. The service provider must also detail its capitalization policy.

(c) Cost of Capital Financing

Cost of capital may be calculated by one of the following methods:

- Return on RAB plus depreciation.
- Cash needs, where cost of capital is simply the amount of debt service (i.e. interest and principal payments).
- Infrastructure renewals accounting plus a return on RAB.

The RIC Act [Section 67(4)] provides for the recovery of cost of financing existing and new investment through:

- earning a return on the value of the RAB plus
- a return of the value of the RAB (i.e. depreciation).

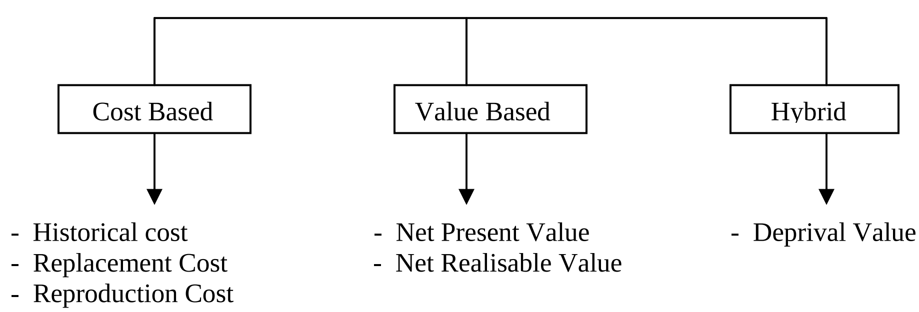
The service provider is asked to set out in its proposal:

- opening regulatory asset base;
- an estimate of its rate of return or weighted average cost of capital;
- forecast regulatory depreciation; and
- actual and forecast asset disposal.

<u>Regulatory Asset Base (RAB)</u>

Accurate asset valuation is critical to generating appropriate price limits. There are a number of methods of asset valuation (shown below) which can generate different values for similar assets.

Valuation Methods



Information to be supplied:

- list of Assets by class/type e.g. land/buildings, plant, pipelines, miscellaneous (vehicles, other equipment, furniture, IT).
- valuation method used for particular class/group of assets.
- total RAB.

Rolling forward the RAB

The service provider needs to show the forecast value of the RAB for each year of the regulatory control period. This is done in the following manner:

- Opening RAB **plus** forecast gross capital expenditure **less** forecast contributions **less** forecast proceeds from disposal of assets **less** depreciation **equals** closing RAB.

The service provider should, therefore, set out:

- forecast levels of contributions and the assumptions underlying those forecasts; and
- an estimate of the proceeds from asset-disposals, and the nature and type of assets to be sold.

Asset Consumption (Depreciation)

Broadly, there are two methods of dealing with asset consumption. **Depreciation** is the common accounting approach for recognizing the loss in value as assets wear out. There are a number of methods for allocating depreciation – Straight Line, Accelerated or Units of Production. However, depreciation is not necessarily well suited as a measure for water and wastewater infrastructure as these assets are repaired and renewed in sections.

Renewals Annuity Accounting can address this problem, where the network of assets is viewed as a single system, the service potential of which is maintained in perpetuity through regularly planned maintenance and renewal programmes and, therefore, does not need to be depreciated. Essential elements of this method are the Asset Management Plan and Expenditure needed to maintain the system. If the service provider proposes this approach, the Business Plan must include supporting information and must discuss why it is appropriate that current customers fund the requirements of future customers.

The service provider must also provide data relating to the utilization of assets, the weighted average remaining life of assets/asset class/groups of assets, and the weighted average depreciation rates for assets/asset class/groups of assets.

Rate of Return on Capital

An allowed rate of return can be derived by calculating the Weighted Average Cost of Capital (WACC) (i.e. cost of debt and equity capital). Generally, the cost of equity is estimated by the Capital Asset Pricing Model (CAPM). The service provider is free to propose any method. However, it will not bind the RIC in its determination.

Information to be supplied under this section:

- model used to determine the overall rate of return;
- capital structure (gearing level), industry benchmark;
- different loans with interest rates, marginal rate, average cost of debt;
- total debt servicing (Interest and finance charges);
- appropriate risk free rate used, market risk premium, the appropriate quantification of the equity beta, gamma etc.; and
- government guarantees, if any, for each loan.

(d) Service Levels and the Service Incentive Mechanism

Economic regulation must consider quality together with price. Lowering of quality is economically the equivalent of a high price. Poor quality may result under price controls which provide incentive to reduce expenditure, as multi-year RPI-X price/revenue caps are designed to do.

Quality of service monitoring programmes therefore complement price regulation. There are a number of methods of providing incentives to improve service performance. These include public reporting of quality of service performance, a Service Incentive Scheme (or S-Factor Scheme) where a service provider's allowed revenue is increased (decreased) based on its performance in relation to performance targets and a Guaranteed Payment Scheme. Under this scheme, payments are made to customers where the service received by them is below a specific threshold. The RIC has already developed a Guaranteed Service Level payments scheme (Guaranteed and Overall Standards) and when implemented this will be monitored. The service provider will be required to provide information to demonstrate that the standards are being achieved.

(e) Form of Price Control and Tariffs

In this section, the service provider should outline the form of price control it proposes to adopt over the regulatory control period as well as provide a detailed discussion of the reasoning underpinning the pricing proposals. The following are among the different forms of price controls that may be adopted:

- tariff basket
- individual price caps
- revenue cap
- revenue yield
- combination of the above.

A full discussion of these alternatives can be found in the RIC's document, **"Setting Price Control: Framework and Approach (April 2005)".**

With respect to pricing proposals, the service provider must show that the impact on customers of the proposed tariff structures have been fully taken into account and how low income or vulnerable customers will be affected. The service provider must consider how it intends to implement the tariffs i.e. whether a staged or rapid introduction of new tariffs. The practicalities and costs associated with administering a number of tariff structures must also be considered. In short, this section should contain the following discussion:

- background information about the service and recent pricing history;
- the reasoning behind the proposed tariff structure, including a clear identification of the principles underpinning the proposal;
- the proposal's ability to deliver incentives for sustainable water use;
- customers' responsiveness to proposed tariff structure;
- the manner in which the tariffs is to be implemented (i.e. billing period, customer class etc.); and
- the impact of the proposal on different customers, on inflation and on the country's competitiveness.

(f) Miscellaneous Charges

The Business Plan should include all miscellaneous charges that the service provider intends to impose and must outline:

- the proposed miscellaneous price and tariff structure;
- the justification for the charges; and
- the impact the charges will have on customers.

3.2.3 Efficiency Improvements

The service provider must detail its plans to improve both operating and capital expenditure efficiency over the period 2007-2011, show how those have been incorporated into its projections and identify any assumptions made. The scope for improvements in efficiency should cover all major areas of operations. The service provider should provide a list of areas where measures were undertaken to improve efficiency over the last five (5) years and how they impacted on reducing costs of the organization. Additionally, the service provider must furnish information showing its relative efficiency or inefficiency compared with other countries in the Caribbean and elsewhere, including any efficiency studies undertaken and methodology used.

3.2.3.1 Performance Indicators

The service providers' performance indicators (compared with the "Best Practice" world wide) should consist of, at the minimum, the following:

- **Water Coverage** – Population, and/or Households/Businesses with easy access to water expressed as a percentage;

- **Sewerage Coverage** – Population with sewerage service expressed as a percentage;

- **Total Water Supplied** – Total annual water supplied to the distribution system expressed by litres per capita per day;

- **Metering Level** $\left(\frac{\text{Total number of connections with operating meter}}{\text{Total number of connections}} \right) \%$

- **NRW** – Difference between water supplied and water sold expressed as a percentage of net water supplied, volume/year and as volume/km/day and volume/connection/day;

- **Pipe Breaks** – Total number of pipe breaks (water service connections and mains) per year expressed per km of the water distribution network;

- **Sewerage Clogs** – Total number of blockages per year expressed per km of sewers; and per number of sewerage connections;

- **Unit Operational Cost (Water)** –

  $\frac{\text{Total annual operating expenses}}{\text{Total annual water produced}}$ and $\frac{\text{Total annual operating expenses}}{\text{Number of connections}}$

- **Composition of Operational Costs** – category of operational costs e.g. personnel and fuel/energy as a percentage of total costs;

- **Staff Connection Ratio** – Total number of staff expressed per thousand water connections;

- **Staff Composition** – Category/Level of staff expressed as a percentage of the labour force;

- **Labour costs vs. Operating Costs** – Total annual labour costs (including benefits) expressed as a percentage of total annual operational costs;

- **Contract out service costs vs. Operational Costs** – Total cost of services contracted-out to the private sector expressed as a percentage of total annual operational costs;

- **Continuity of service –** Average hours of service per day for water supply;

- **Industrial to Residential Charge** – The average charge (per m^3) to industrial customers compared against the average charge (per m^3) to residential customers;

- **Average Tariff –** Total annual operating revenues expressed by amount of water sold;

- **Connection Charge –** The cost to make a residential pipe connection to the water system and sewer system measured in absolute amount and as a percentage of GDP;

- **Collection Period** – Year-end accounts receivable/Total annual operating revenues expressed in months equivalent of sales. That is, the ratio between the year end accounts receivable and operating costs exclude depreciation and interest payments;

- **Service Complaints by type** - Number of complaints of quality of service during the year expressed per total number of service complaints (water and wastewater) x 100;

- **Water Quality** - Total number of treated water tests complying with the applicable standards during the year expressed per total number of tests of treated water performed during the year x 100;

- **Operating Ratio** – The operating ratio is the ratio of annual operating costs to annual operating revenues. In this case operating costs include all the expenses together with depreciation and interest costs (but no debt service payments);

- **Debt Service Ratio –** Total annual debt service expressed as a percentage of total annual operating revenues;

- **Investments** – Total annual investments expressed as a percentage of total annual operating revenues; and

- **Return on Assets –** Earnings before interest and tax (EBIT) divided by net plant in service expressed as a percentage.

3.2.3.2 Other Information

- a methodology outlining plans and procedures for the reduction and control of non-revenue water (NRW) and NRW reduction targets for each year of the control period;

- a methodology outlining the measures for the implementation of universal metering with the attendant activities of meter reading, testing, and maintenance;

- detailed information on Scheduled Areas, including class of supply (number of hours) and approximate number of customers in each area;

- information on worst served areas/customers and projects that have been introduced or earmarked for introduction to improve the quality of service;
- an environmental summary outlining strategies to meet environmental standards for future plant and infrastructure and mitigation measures for existing plant;

- plans for wastewater improvement including adoption of (sewerage treatment plant) STPs, sewer replacement and expansion, dealing with industrial wastewater and operational and administrative changes;

- measures to improve the quality of drinking water;

- bad debt policy;

- receivables and collection policy;

- forecast of revenue by class; and

- number of employees (permanent/temporary) and forecast.

Appendix I contains baseline explanatory data for water and wastewater which is also to be supplied by the service provider.

3.2.4 Maintaining Service to Customers

The service providers' strategy for maintaining and improving service to customers is the main focus under this section. The information should be provided under three (3) headings:

(a) **Maintaining Service and Serviceability to Customers**

The service provider should provide year-by-year projections of delivery of outputs over the control period that will maintain base service levels and serviceability to both current and future customers. The service provider must identify the minimum levels of activity that it considers necessary to maintain delivery of the outputs and justify projected operating and capital maintenance expenditure needed to deliver these outputs. The information should include historical levels of maintenance expenditure by asset categories (above and below ground) and subsets, the projected capital maintenance needs by categories and sub-categories taking into account customer complaints information such as supply interruptions, as well as its asset management plans and strategy including its operating practices and planned routine maintenance activities. Capital expenditure to maintain the asset base should normally be divided into preventative/proactive capital maintenance, reactive capital maintenance and capital maintenance on grounds of economics and health, and safety.

(b) **Maintaining the Supply/Demand Balance**

The service provider must set out its plan and strategy for maintaining the balance between supply and demand, focusing on the implications for expenditure (operating and capital). The information must include the service provider's assumptions and judgment on the expenditure (operating and capital) needed to maintain the balance. The service provider's strategy must represent the least cost combination of measures to maintain the balance.

(c) **Service Enhancement**

The service provider must set out its plans and strategy to improve the service delivered, measurable outputs and the performance to be achieved year by year over the regulatory control period, including the projected service enhancement operating and capital expenditure needs. It must set out its reasons for proposing the enhancements, for example, it should state whether existing performance is poor in comparison with its comparators. Where the service provider is seeking specific financing in its Business plan, the impact of the proposed improvements on operating and capital expenditure, with expected impact on bills, must clearly be stated.

3.3 Public Summary

The Public Summary is a stand-alone summary written with the customers in mind to enable them to understand the service provider's plan and strategy for the regulatory control period. It should:

- set out the service provider's deliverables with time frames for the control period, in terms of quality enhancements and service delivery, together with implications for prices and average household bills;
- set out the service provider's key financial projections with underlying assumptions;
- set out the implications of major enhancement programmes in terms of benefits to customers; and
- set out the service provider's targets and proposals for efficiency improvements.

4. MONITORING PLAN

4.1 Monitoring Plan

The Monitoring Plan is a public record of the service provider's planned outputs, targets, and key activities to be delivered during the regulatory control period.

To assess the performance year-by-year, the service provider will be required to submit its **Monitoring Plan** for the control period to the RIC within three (3) months of final determination. The RIC will stipulate the minimum requirements and reporting timeframe in the final determination. The Monitoring Plan will be placed in the RIC's Library and on its website and will be distributed to stakeholders including NGO's, consumer groups, local Authorities and other interested parties.

The information to be included in the Monitoring Plan will be under the following headings:

- **Outputs**

  The required minimum outputs and targets will be established in some detail in the final determination and monitoring the delivery of these outputs will be the primary consideration. Evidence of a likely failure to deliver the required output/improvement could trigger additional reporting and regulatory action.

- **Serviceability to Customers**

  Under this section, the service provider will be required to deliver on its commitments of maintaining serviceability to customers. These commitments will be translated into projects and programmes that would be carried out during the control period. Where commitments involve renewing, replacing or extending physical assets, the service provider will be required to detail the areas, the expected commencement and completion dates etc.

- **Prices**

  The overall price limit for the regulatory control period will be set by the RIC in the final determination. The service provider submits, at least two months prior to the beginning of each year of the regulatory control period, its proposed tariffs to apply from the start of each year for verification of compliance by the RIC. Additionally, the service provider would be required to explain the implications of the approved tariffs for typical customers' bills in different customer classes.

4.2 Performance Reporting and Auditing

Apart from the Monitoring Plan discussed above, the RIC will also be monitoring and reporting annually on the performance of service providers. This is consistent with the RIC's mandate under its Act, which provides for the RIC to monitor and report publicly on the performance of the service providers, including the quality of performance information. The RIC considers that the performance reporting framework should broadly cover the following areas of service:

- baseline explanatory data (for example, customer number and network length);
- quality of supply;
- network reliability and efficiency (for example, interruptions and losses);
- consumption and environmental and conservation initiatives;
- customer responsiveness and service (for example, response to service disruptions and complaint handling);
- financial performance; and
- affordability, including prices.

The RIC will release the draft framework to consult with stakeholders once a draft set of indicators, definitions and thresholds have been established.