

Appendix G

KPMG audit of
regulatory models



151 Pirie Street
Adelaide SA 5000

GPO Box 2499
Adelaide SA 5001
Australia

ABN: 51 194 660 183
Telephone: +61 8 8236 3111
Facsimile: +61 8 8236 3299
DX: 456 Adelaide
www.kpmg.com.au

Chair of the Board
SA Water Corporation
250 Victoria Square/Tarntanyangga
ADELAIDE
SA 5000

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23 August 2019

Dear Sir

Review of regulatory models for Regulatory Determination 2020 (RD2020)

We have been engaged by South Australian Water Corporation (SA Water) to undertake certain checking procedures over its cost allocation calculations and regulatory models as they relate to the development of the RD2020 proposal to ESCOSA. These procedures have focussed on changes made to the models since the 2016 determination and checking mathematical accuracy, consistency and compliance with regulatory requirements.

We identified no material findings in relation to the accuracy and robustness of the cost allocation calculations and the regulatory models.

We are pleased to provide below a summary of the scope and results of our procedures. Our detailed analysis and observations have been provided to SA Water Management in a separate report ('Review of regulatory models – Cost allocation, revenue and pricing models', dated September 2019).

Scope

Cost Allocation Calculations

We have:

- checked the application of the allocation percentages entered into Oracle PBCS (SA Water's budgeting and planning system) to the total forecast operating and capital costs
- on a sample basis, checked that the costs entered into Oracle PBCS correctly reflected the costs noted in the relevant business cases being developed as part of the Corporation's RD2020 submission, and
- checked that the Oracle PBCS output was correctly referenced by the Pricing Template that provides the inputs to the calculation of required revenue in the building block and roll-forward models.

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Regulatory models

We have:

- for the water and wastewater, building block and roll forward models, checked the accuracy, consistency and regulatory compliance of the changes made to them since they were reviewed by KPMG for RD2016
- checked specific flows of data between various models that result in the forecast required revenue for RD2020 and pricing impact on customers in 2020/21, and
- checked the calculations and macro in the Pricing Impact Model that result in the calculation of the pricing impact on customers in 2020/21.

Results

Cost allocation calculations

The results of our procedures in relation to the cost allocation calculations are as follows:

- We did not identify any inaccuracies or inconsistencies in the application of the cost allocation percentages entered into Oracle PBCS as they are applied to the forecast capital and operating expenditure for RD2020.
- Other than two instances where Management provided acceptable explanation, the forecast costs in the sampled business cases were correctly reflected in Oracle PBCS.
- The relevant values from Oracle PBCS are correctly referenced by the Pricing Template.

Regulatory models

The results of our procedures in relation to the regulatory models are as follows:

Roll Forward Models

- No inaccuracies or inconsistencies that impacted on the calculation of the 2020/21 opening RAB or weighted average remaining asset lives were noted in the changed formulae of the models.

Building Block Models

- No inaccuracies or inconsistencies that impacted on the calculation of the RD2020 required revenues were noted in the changed formulae of the final models.

In relation to regulatory consistency we found that the modelling extensions to both the Roll Forward and Building Block models complied with the regulatory requirements outlined in the 2018 pricing order and the relevant sections of the National Water Initiative pricing principles.

Data flows

We agreed with Management a set of specific, relevant data references between the models that were checked for their accuracy. No inaccuracies were identified in any of the formulae references checked in this process.



Pricing Impact model

We did not identify any inconsistencies or inaccuracies in the formulae or operation of the macro that would impact the calculation of the year-one water and sewer price increases for RD2020.

We would like to thank SA Water Management for their assistance during this engagement. An additional confidential report containing further details and information on our procedures and findings has been provided to Management. We confirm our consent for SA Water to provide a copy of this letter to ESCOSA as part of the RD2020 submission.

Yours faithfully

Eamonn Corrigan
Director

Tim White
Director

Important notice

This letter is delivered subject to the agreed written terms of KPMG's engagement.

This letter provides a summary of KPMG's findings during the course of the work undertaken for SA Water under the terms of our engagement letter and your Letter of Acceptance both dated 14 June 2019. The contents of this letter do not represent our conclusive findings, which will only be contained in our final detailed report.

This letter is provided solely for the benefit of the parties identified in the engagement letter and is not to be copied, quoted or referred to in whole or in part without KPMG's prior written consent. KPMG accepts no responsibility to anyone other than the parties identified in the engagement letter/contract for the information contained in this report.

KPMG consents to the provision of this letter to ESCOSA as part of SA Water's RD2020 regulatory submission – Our Plan 2020.