

SAW 11/04009

11 December 2014

**SOUTH AUSTRALIAN  
WATER CORPORATION**

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Dr P. Walsh  
Chairperson  
Essential Services Commission of South Australia  
GPO Box 2605  
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Dear Pat

### **SA Water Regulatory Rate of Return 2016 - 2020**

I am writing to you on behalf of the SA Water Board in response to ESCOSA's draft report to the Treasurer on SA Water's regulatory rate of return for the period 2016 to 2020. SA Water is in the process of preparing a more detailed public submission regarding the draft report.

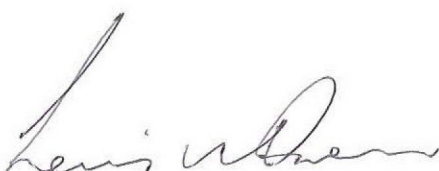
The Board and I are very disappointed that the draft report presents a limited and inaccurate position with respect to interstate comparisons by omitting decisions after 2013 from Table 2.1 (and in particular, fails to present the evolving and final picture regarding IPART's decisions on this matter). We can think of no reason why the Commission would seek to omit such information, when it is fundamental to any understanding of regulatory decisions on WACC.

We also note that the position taken in the draft report departs significantly from the most recent regulatory precedents (such as the IPART and AER WACC methodology reviews released in December 2013). If we are looking for price certainty and stability, it is clear that the position in the draft report is not in the long term interests of customers, sets unrealistic expectations as to price outcomes from the proposed methodology in the next determination period, and increases the potential for significant price shocks for customers in future determination periods. Further, it will be a strange result if the WACC set for SA Water is quite different to the WACC set for the electricity and gas utilities in this state: what could be the explanation for such an outcome (other than the timing of the decision, but AGNL and SA Water are identical)?

We also note that the cost of debt allowance indicatively presented in the draft report is lower than SA Water's actual cost of borrowing. It is our view that the continuing financial viability of SA Water is in the long term interests of customers and the South Australian community as a whole.

SA Water has taken an open, transparent and cooperative approach to the preparation of the pricing determination, with a common aim between our two organisations of delivering efficient prices that are in the long term interests of customers. We are therefore concerned that this draft report has chosen to present a preferred position that derives from a very selective view of previous determinations and undermines the value of greater regulatory consistency and price stability for customers.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Lewis Owens', with a stylized, flowing script.

Lewis Owens

**Chairman – South Australian Water Corporation**

c.c Hon. Ian Hunter MLC, Minister for Water and the River Murray

Hon. Tom Koutsantonis MLC, Treasurer

Mr Brett Rowse, Under-Treasurer