

30 September 2016

Mr Adam Wilson
Chief Executive Officer
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Dear Mr Wilson *Adam,*

Inquiry into regulatory arrangements for small-scale and off-grid water, gas and electricity services

Thank you for the opportunity to provide input into your abovementioned inquiry. SA Water is supportive of continued development and maturity of the regulatory frameworks in South Australian, for the benefit of all South Australian consumers.

SA Water acknowledges the significant improvement and modernisation in regulatory approach to date and ESCOSA's proposed strategy direction for 2017 – 2020. SA Water offers continued support for regulation that is:

- Outcomes and risk-based
- Driven by customer expectations and willingness to pay
- Balanced in terms of the benefits it delivers and the cost to the service provider to participate and comply (which flow on to customers through prices)
- Provides long term security and economic efficiency to customers of new infrastructure.

SA Water understands ESCOSA applies varying levels of regulation and regulatory oversight to utilities based on the risk they pose to the customer. In a simplistic form, this can be measured by the number of customers the utility services and therefore its potential impact on those customers. While SA Water understands this is a logical approach, as regulatory regimes mature appropriate levels of regulation and regulatory oversight should be amended commensurate to the ongoing risk the utility poses to South Australian consumers, especially as the utility responds to the regulatory framework. This frees up regulatory resources to focus on those utilities that are not responding to customer expectations.

Water, gas and electricity suppliers within South Australia are generally localised operations with customers determined by locale as opposed to choice. This means that in providing these services to those customers it needs to be in regard to the level of service those customers expect and the price they are willing to pay for them.

ESCOSA's regulatory approach needs to develop an appropriate mechanism to ensure these customers are being heard and all utilities in South Australia are designing and driving their operations to provide the services their customers want and are willing to pay for.

If this is occurring, compliance with the National Water Initiative Pricing Principles should not be an issue for water utilities because cost recovery will meet customer expectations in terms of price and quality of service. This will also resolve issues where utilities are potentially cross-subsidising their water and sewerage operations through other activities, providing transparency between the costs of the services and the price charged to the customer.

An issue of particular relevance for small-scale utilities is the sustainability of the service to its customers. The ESCOSA licensing regime has a key role to play in ensuring utilities are appropriately resourced and have appropriate strategies to maintain sustainable supplies to its customers over the longer term. This ensures that even if a utility exits the market, customers do not experience the price shock of another utility taking over the provision of those services and having to address previous under investment, or short term planning, in the infrastructure required to provide those services.

Thank you for the opportunity to provide feedback and please do not hesitate to contact me or my staff to discuss this further at your earliest convenience.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Roch Cheroux', is written over a horizontal blue line that spans the width of the signature.

Roch Cheroux
CHIEF EXECUTIVE