



## Submission

**To:** Essential Services Commission  
of South Australia

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**Topic:** Water Regulatory  
Determination 2020  
DRAFT Framework and Approach  
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## Uniting Communities Interest in Water Regulation

The Uniting Communities financial counselling team regularly sees clients who are spending two thirds of their income on rent plus utilities, so most of their income is spent on level one of Maslow's needs hierarchy, meeting the most basic needs of shelter.

The Australian Bureau Of Statistics Household Expenditure Survey, 2015-16 included a survey of financial stress, which is a standard survey. Just under 60% of respondents to the survey reported that they did not experience any of the attributes of financial stress, indicating that about 40% of households in Australia to experience some form of financial stress, with pain utility bills one of the most commonly reported measures of financial stress. We recognise that energy bills have been the major contributor of his or she related financial stress both because of the rapid rate of growth in electricity bills and because of volatility in levels of bills. We also know from our research focused on tenants and water affordability that water costs is also a concern for many low and modest income households.

During 2017, Uniting Communities received funding through the Consumer Advocacy Research Fund (CARF) to consider water affordability for tenants. A key finding was that over 100,000 people struggle to pay their water bills in South Australia.<sup>1</sup>

Our experience as a large service provider in South Australia leads to the conclusion that reducing the costs of utility bills is a Priority for uniting Communities; this is what drives our interest in utility regulation.

### SA Water Framework and Approach 2020

In the "Draft Framework and Approach", ESCoSA states that they are seeking feedback on:

- *Are the proposed guiding principles for the SA Water Regulatory Determination 2020 appropriate? Are there other factors that we need to take into account?*
- *Does the proposed approach allow customers, customer advocates and other stakeholders appropriate and reasonable opportunities to have their say on the service/price mix that SA Water should offer from 1 July 2020?*
- *Is the proposed level of oversight of SA Water's customer engagement process sufficient? Is the proposed Framework and Approach for economic regulation of SA Water from 1 July 2020 likely to best promote consumers' long-term interests?*
- *Does the proposed framework achieve the right balance of protecting consumers' interests, while minimising the cost of regulation?*

*The Draft Framework and Approach then poses the following questions for stakeholders to respond to:*

- *Have we identified the right areas for improvement?*
- *Are there other areas for improvement that we should consider?*
- *Are the proposed guiding principles for the SA Water Regulatory Determination 2020 right or are there other factors that we need to take into account?*

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<sup>1</sup> Uniting Communities: Sinking Incomes, December 2017

- *Is the proposed Framework and Approach for economic regulation of SA Water from 1 July 2020 likely to best promote consumers' long-term interests, while minimising the cost of regulation?*
- *Should we continue with the approach of setting revenue caps for drinking water and sewerage services, with a pricing principles approach for other retail services?*

## Our Approach

In this submission we respond to these questions for stakeholders by considering the issues raised in the draft Framework and Approach in the order presented in that paper.

### *2.1 What are we looking to achieve for SA Water Regulatory Determination 2020?*

*To promote our primary objective, the proposed Framework and Approach for SA Water Regulatory Determination 2020 (SAW RD20) is aimed at delivering the following outcomes:*

- *SA Water should understand what customers value and develop proposals for services and prices that respond to those needs*
- *SA Water should incur only efficient expenditure, taking a long-term approach to its decision making to ensure that the essential services it provides are sustainable, and*
- *customers should receive the benefits of that improved efficiency, through the prices they pay.*

We suggest that there is more to understanding water and sewerage services than in the pure economics of “what customers value” and “efficient expenditure.”

Both water supply and sewerage services need to be understood as “merit goods” rather than standard goods / services.

By way of definition: “The market for *merit goods* is an example of an **incomplete** market. Merit goods have two basic characteristics:

Firstly, unlike a *private good*, the net private benefit to the consumer is not fully recognised at the time of consumption. Net private benefit is the utility from gained from consumption less any private cost incurred, and equates to net **consumer surplus**. In the case education, which is widely considered to be a merit good, pupils and students cannot possibly know the specific private benefit to them of getting good grades at school, college or university. They will be well aware of the sacrifice required to study, but will not know the benefits to them in terms of a future job, salary, status and skills. Therefore, with education, as with other merit goods, there is a significant **information failure** in terms of expected benefits.

Secondly, while consumption of a merit good also generates an external benefit to others, from which society gains, this is unlikely to be known or recognised at the point of consumption. Given that decisions to consume are driven by self-interest, it is unlikely that

this external benefit will be taken into account when the consumer of a merit good evaluates its worth.”<sup>2</sup>

For Uniting Communities this means that SA Water and ESCoSA, as regulator, need to understand the common good or community-wide value of water and sewerage services as well as the value of the services identified by individual household and business consumers.

**The Framework and Approach should establish the principle that water and sewerage services include merit good attributes and that universal access to water by all citizens, at a price that everyone can afford, needs to be the driving principle to be achieved through regulation of water and sewerage services.**

We agree that water and sewerage services need to be provided in as efficient a manner as possible and that the community, as well as individual customers should receive the benefits of that improved efficiency.

#### *2.2.1 A long-term approach to economic regulation of SA Water*

*The proposed regulatory approach is aimed at driving SA Water to deliver good customer outcomes in the long term.*

We applaud the recognition that there needs to be a long-term approach to the economic regulation of SA Water, however we wish to nuance the notion of long-term by stating that the shorter term well-being of customers is a part of a longer term outcomes. There is not much point in considering the long-term outcomes for a low income customer who is having to forego expenditure on health, medication or even food, in order to pay their SA Water bills.

JM Keynes is quoted as saying “in the long run we are all dead” which we suggest in this context be interpreted as highlighting the importance of tempering a long run only perspective when short run action can detrimentally impact the long-term, at least for some individuals. So rather than a purely long-term approach to commit regulation we suggest that a more bifocal approach is needed with shorter run implications to be part of assessing the longer term impacts.

The other key factor of a long term approach is reaching an agreement between SA Water, the Regulator and consumer interests in the longer term goals of consumer engagement.

We believe that a goal is for consumer engagement to be both an ongoing process and one that involves clear agreement between consumer interests and SA Water being presented to ESCoSA at time of lodgement of a regulatory proposal. This process is predicated on empowerment and collaboration, so the critical element of the end goal for consumer engagement as the main driver for network regulatory proposal is genuine shared partnership between SA water, ESCoSA and consumer interests. (We are happy to discuss our view of how consumer interests are represented a structurally and in regulatory proposal development in separate discussions.)

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<sup>2</sup> [http://www.economicsonline.co.uk/Market\\_failures/Merit\\_goods.html](http://www.economicsonline.co.uk/Market_failures/Merit_goods.html)

Uniting Communities appreciated the support from ESCoSA in 2017 to enable staff member Mark Henley to visit the Water Industry Commission of Scotland to explore the widely regarded Scottish Water model to regulation. This report includes the following:

### **i. Scottish Water**

*Thanks to the Water Industry Commission of Scotland (WICS), I met with WICS, Scottish Water, Citizens Advice and Customer Forum members. The “Scottish Water model” is widely recognised as being up with the best example of consumer engagement anywhere.*

*Scottish Water has around 5 million customers and provides drinking water to 2.4 million households and 150,000 business customers in Scotland, it does not have water meters and does not issue bills. Income is collected as part of the equivalent of Council Rates. So the context of the Scottish Water situation is quite different from that of Australian water businesses. It means finding an efficient cost for consumers needs to be achieved without price or use signals.*

#### **Customer Forum**

*In 2011 the Customer Forum was jointly established by the Commission, Scottish Water and Consumer Focus Scotland, as a response of the Scottish people rejecting the UK Parliament’s decision to privatise water supply. The Scots are proud of their water and strongly believe it to be a public asset.*

*The Customer Forum has nine members. The chair being a former politician; five members are persons with “strong customer-focussed reputation”, two members represent the retailers, and the remaining member is from the chamber of commerce. Together with Scottish Water, the Customer Forum is tasked with devising a business plan, which would be consistent with the regulatory guidance of the Commission. The guidance notes reflect a range of issues including finance and environmental. One of the salient aspects of the Consumer Forum is that its ability to bring together the representatives of a wide-range of organisations, including licensed retailers, to ensure that both household and business customers get the value for their money. Significantly, the Customer Forum is charged with seeking written agreement with Scottish Water for their regulatory proposals. In the last regulatory round, this was achieved through a ‘minute’ that was provided to the Regulatory, who accepted it as an agreement.*

*The Customer Forum also has a significant budget, of the order of £175k. Citizens Advice Scotland also receives funding for their consumer engagement. This is funded by a levy on water and sewerage revenue.*

*The role of the Consumer Forum is considered to be significant and influential as its Engagement Committee negotiates with Scottish Water on matters related to its business plan as a whole. The modus operandi of negotiation between the Forum and Scottish Water is this: providing the service at the most reasonable price and balancing the interests of all parties. The agreement was incentivised and supported while the failure to reach an agreement would be penalised by the Commission. If there is a disagreement, both Forum and Scottish Water should make it public the grounds of their disagreement and the Commission would step in to use its statutory powers, an outcome that no party wanted. Hendry argues that this is the reason for the success of the Forum.*

*The Citizens Advice Scotland (CAS) is a statutory representative of Scottish Water consumer interests, in addition to energy and postal services. CAS scrutinises policy and practice in the water industry. The consumer engagement strategy of CAS is backed up by four thematic research projects:*

*promoting support for vulnerable consumers, sharing best practice on debt recovery in the non-domestic market, supporting consumer engagement and improving outcomes for communities at risk of floods.*

*As a consumer champion, CAB works with government, regulators and competition authorities, to identify problems early and hold the behaviour of providers of services to account. Most significantly, they undertake extensive consumer surveying and engagement, sharing results with the Consumer Forum.*

*The Citizens Advice and Citizens Advice Scotland's work plan for 2016/17 states that CAS will become accountable to the Scottish Government for delivery of their elements of the Work Plan, following the enactment and devolution of the Scotland. The interesting aspect of CAS, however, is its focus on the non-domestic water consumers, such as small and medium-sized enterprises and sole traders.*

### **Research**

*Scottish Water works with its research partner, Accent, to do in-depth research with customers. The research is conducted through an online panel, namely The Consumer Panel. It is an online community of customers who have signed up to offer their thoughts on Scottish Water's strategy, processes and services. The Consumer Panel engages in conversation with its customers/panellists on issues, such as involving customers and letting them have a say in the type of innovations that Scottish Water implements.*

*Scottish Water employs innovative approaches to customer research. Some of the innovative techniques that the Scottish Water is using to engage with its customers are (June 2012, p: 5):*

- *Online Customer Panel*
- *Online Stated Preference*
- *Youth Research*

#### *Online Customer Panel*

*Scottish Water has a pool of 50 household customers available to participate in online panel activities. These customers take part in a number of activities over the course of a year so. The customers can build up a good understanding of all the issues Scottish Water deal with, and give a customer's perspective. A key advantage of this research is panellists are able to contextualise each new issue with all the topics they have already covered, giving Scottish Water a "bigger picture" insight. Scottish Water claims that this is extremely valuable to them (Scottish Water), helping them (Scottish Water) improve their service and inform their strategy.*

#### *Online Stated Preference*

*Online Stated preference research is used to identify which issues customers think Scottish Water should be investing and the level of investment they think should be committed. This research has to be carried out a few years before the investment is made to ensure Asset Strategy team can analyse the customer feedback and develop a business plan. This approach allows Scottish Water to double check customers' priorities over the next two years and make sure Scottish Water is addressing and investing in the issues which remain important to customers.*

#### *Youth Research*

*As Scottish Water is currently looking at investment until 2020 and informing their strategic direction beyond this means it is important that young people's views are considered. Scottish Water has*

*commissioned a series of online activities with 16-25 year olds and will be carrying out workshops at secondary schools to understand young people's views. Scottish Water will mirror many of the topics covered with our current customers to ensure we have a fully rounded view of what customers are likely to expect in the future.*

*According to the Scottish Water's in-house journal, Involve Scotland (Jan 2013), participants at the Young group (aged 18 -25) panel expressed that they "knew very little about the role or the extent of the services provided by Scottish Water". Therefore, Scottish Water realises the significance of "educating the public and raising brand awareness was seen to benefit Scottish Water." These future customers accepted that both short-term and long-term interruptions occur but specified that they "would like to be kept informed" and advised advanced notifications and progress reports are essential, particularly during long-term interruptions.*

*Maybe it because I'm a former youth worker, but I find this youth specific focus particularly impressive*

#### *Your Views Count - Plans for the future*

*Involve Scotland (Jan 2013) also states that it has launched major consultation, namely Your Views Count, encouraging customer to help shape the future of water services in Scotland between now and 2040. Your Views Count identified potential challenges and opportunities such as climate change, population growth and technological advancements that could arise in the next 25 years. The idea behind this consultation is to hear customer's views on the extent to which Scottish Water should prioritise its issues. Customers are also asked about the future charge levels and the extent to which they would like to see service improvements in return.*

*One response that is more relevant to the Australian situation (in the context of September 2016 blackout) is this: When asked about the future service, "participants agreed that they prefer Scottish Water to invest in protecting its assets against more frequent events rather than rare events. They also felt that areas with a higher population density and areas which were more prone to the effects of extreme weather should be prioritised when investing."*

#### **Observations**

*Consumer engagement approaches are of particular interest for Australian utility network regulation. The development of the Consumer Forum, as a tripartite agreement between regulator, business and a leading consumer organisation, now Citizens Advice Scotland, is of interest and potential application. Key roles of the Customer Forum are to be able to enter into some form of documented agreement with Scottish Water when regulatory proposals are presented to the regulator. The Customer Forum does not represent consumers directly but is regarded as able to represent a broad customer perspective. This is backed up by extensive consumer engagement which is undertaken by bodies who include the Customer Forum as a stakeholder. We are not aware of any bodies in Australia that have a strong role in negotiation and agreement as the Customer Forum, though some network businesses have customer reference or advisory groups which are starting to place some of the basic roles undertaken by the Customer Forum for Scottish Water regulation.*

*In short, application for Australia includes:*

- 1. The achievement of documented agreement*
- 2. The structure and processes of the Customer Forum*
- 3. Youth specific research – the views of young people and sought and apparently valued*

4. *Significant on-going resourcing is available to the Consumer Forum and to Citizens Advice too.*

We strongly believe that these four aspects of application merit careful consideration for the regulation of SA Water and could be included in the Framework and Approach in 'flagging' longer term objectives.

The aspects of the Scottish Water approach we consider have application to South Australia and could be foreshadowed in the Framework and Approach include:

1. the entire regulatory process is facilitated by a tripartite arrangement involving regulator, water business and consumer perspective. We observe that the role played in the Scottish Water approach by Citizens Advice Scotland, as a lead consumer group, is often underplayed. We strongly believe that a consumer perspective should ultimately be part of a tripartite approach for the regulation of SA water.
2. Customer Forum. This group of people is appointed by the three parties and enabled by them. Significantly the Customer Forum is an ongoing process and so is able to have input to Scottish Water on a regular basis, they also have access to the reports information and data that Scottish Water sees, enabling them to give informed as well as consumer focus perspective. We are aware of network businesses in Australia who are currently applying what they are calling the Customer Forum approach, however we observe the tendency for the Forum to be appointed purely by the network business and so lack the advantages of tripartite appointment and enabling that the Scottish Water Customer Forum enjoys.
3. Documented agreement. The documented agreement between the Customer Forum and Scottish Water that is presented to the regulator at time of lodgement of a regulatory proposal supports the regulatory process being efficient and gives the regulator a clear perspective on areas of agreement as well as aspects of the regulatory proposal where there are points of difference.
4. Resourcing. Both the Customer Forum and Citizens Advice Scotland receive significant funding to enable them to participate effectively including conducting consumer research. Uniting Communities highlights the reality that customer interests cannot readily be involved in significant processes, like the development of a regulatory proposal, without adequate resourcing. We've written separately to both SA Water and ESCoSA about the lack of resourcing for consumer engagement in SA Water regulatory processes. While not directly a matter for the Framework and Approach, resourcing has bearing on the capacity of the Framework and Approach to be realistically applied in the best interests of consumers.

**In considering a long-term approach to economic regulation of SA Water in the framework and approach, we encourage ESCoSA to include some signals about a desirable longer term process which we suggest includes: regulatory proposals being an outcome of ongoing engagement between consumer perspective, the regulator and SA Water; the appointment of a Customer Forum supported by a tripartite agreement; seeking documented agreement between consumer interests and SA Water at time of lodgement of a regulatory proposal and adequate resourcing to consumer involvement.**



### *2.2.2 Providing consumers and other stakeholders with an even greater opportunity to be involved in the regulatory process*

*In order to promote the long-term interests of customers, we need to understand customers' priorities and views about SA Water's services. We will be encouraging SA Water to engage closely with its customers in preparing its RBP and we want it to consult with other stakeholders before finalising the RBP for our approval. That consultation should include an opportunity for customers and stakeholders to comment on SA Water's proposals, to ensure that it has responded to customers' priorities appropriately.*

*We propose the following guiding principles for SA Water to consider when engaging with its customers to determine their priorities and preferences:*

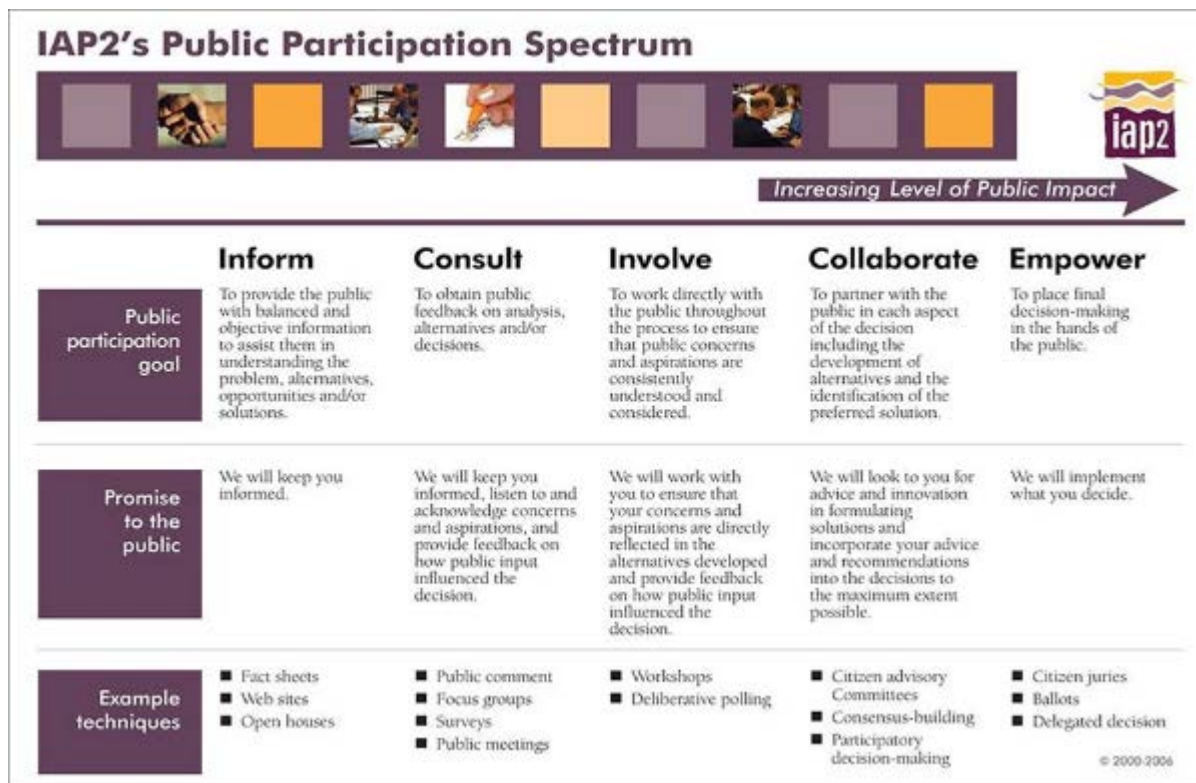
- 1. The purpose of the engagement and how the results will be used should be made clear to customers. This includes being clear about the level of influence participants can have on the final decision to be made.*
- 2. A representative sample of the population that will be affected by the decision should be given the opportunity to have their views heard. This includes choosing the appropriate methods to allow different types of customers to meaningfully participate in the process.*
- 3. The engagement should be conducted at the right time in the decision making process to allow customer views to be genuinely considered. This includes allowing customers the opportunity to validate if their views have been accurately represented.*
- 4. Any engagement process should be proportionate to the significance and impact of the investment decision being considered. This includes ensuring that the cost of undertaking the engagement does not outweigh the benefits to be achieved through the investment decisions.*
- 5. The results of the engagement process should be communicated clearly and transparently to participants and the wider customer base. This includes reporting back on how the promises made through the engagement process have been, or will be, delivered.*

We are strongly committed to the notions of consumer engagement in the pending SA Water regulatory process, and beyond, as well as having a commitment to consumer engagement as an ongoing process.

There are two key concepts at play here, "consultation" and "engagement." We are advocating for engagement rather than consultation. To explain, the IAP2 spectrum for public participation<sup>3</sup> is now widely quoted in dealing with consumer engagement for network regulation.

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<sup>3</sup> <https://www.iap2.org.au/About-Us/About-IAP2-Australasia-/Spectrum>



The five headline concepts of the spectrum are widely discussed:

inform → consult → involve → collaborate → empower.

What is less widely discussed is the associated “promise to the public” for each of these five headline is on the spectrum. The promise to the public for consultation is given as “we will keep you informed, listen to and acknowledge concerns and aspirations and provide feedback on our public input influence a decision.” Whereas for the higher engagement ends of the spectrum, the promise to the public for collaboration is that “we will look to you for advice and innovation in formulating solutions and incorporate your advice and recommendations into the decisions to the maximum extent possible.” While for empowering consumers to promise to the public is “we will implement what you decide.”

We argue that consultation is a relatively benign process whereas engagement is understood to be collaboration that empowerment from the IAP2 spectrum is much more dynamic involving and participative. This we suggest should be the objective of SA Water consumer engagement; ongoing and dynamic involvement with mutual respect with the end goal being that SA Water will implement what consumer engagement advises. This leads to the following brief comments about the principles that have been proposed.

### Principle one

This principle talks about SA Water “being clear about the level of influence participants can have on the final decision to be made.” This approach could mean a very one-way, top-down approach to engagement when we strongly believe that a goal should be the application of the “promise to the public” from the “empowerment” end of the IAP2 public

participation spectrum. This would mean that the principle would be SA Water (and ESCoSA) committing to “implement what consumer interests decide.”

#### Principle two

We highlight that some of best practice in consumer engagement occurring around the world uses a diversity of engagement techniques and different consumer audiences in order to engage effectively. So “choosing the appropriate methods” is very important with the recognition that there will be a number of different methods applied, with some method seeking comment from the breadth of SA Water customers and the greater focus being on regular engagement with people and organisations who are able to spend some time understanding the issues involved and representing a consumer perspective.

#### Principle three

We support the principle of timely engagement with the opportunity for dialogue. However we also note that longer term goal for “right time” should be for consumer engagement to be an ongoing and meaningful process that is not purely driven by regulatory proposal.

#### Principle four

Uniting Communities also supports the notion of appropriateness of engagement, with most time and effort being allocated to the more difficult and complex aspects of a regulatory proposal. We also note the reference to resourcing in this principle and restate the importance of consumers being resourced adequately to engage.

#### Principle five

This principle includes a statement “results of the engagement process should be communicated clearly” but also needs to spell out that clear communication is a two-way dialogue not a one-way presentation of information from the perspective of SA Water.

The Framework and Approach should be using the language of “collaborate” and “empower”, rather than “consult,” with reference to the meanings from the IAP2 spectrum

#### **Additional principle**

**A common information base is crucial for any meaningful engagement so we suggest sixth principle of:**

**“All relevant data, including consultant and specialist reports will be made available to consumer interests to enable informed consideration of all relevant issues.”**

#### **2.2.1 A long-term approach to economic regulation of SA Water**

*The proposed regulatory approach is aimed at driving SA Water to deliver good customer outcomes in the long term.*

**This approach is supported with the supplementary comment being that the objective for SA Water should always be to deliver good, and improving customer outcomes.** The notion of continuous improvement should be embedded into both short and longer term objectives for SA water. We present this is a principle not to imply that SA Water is not currently seeking a continuous improvement approach.

### 2.2.3 Coordinating with other regulators

*SA Water is subject to other regulatory obligations, including environmental, health and social obligations. It is important that the regulatory approach is complementary to those other types of regulation. In particular, SA Water's customers pay for the cost of meeting all of those other regulatory obligations and we want to ensure that we coordinate our approach.*

Joined up regulation is common sense, this principle is supported

### 3.1.1 The methodology for setting service standards

*We propose to require SA Water to develop a draft set of service commitments to its customers as part of its RBP. The draft standards should relate to the aspects of service valued by its customers. We are open to a set of service standards that are quite different to the current service standards.*

Service commitments for customers are important as they provide a sound base for all parties to evaluate progress and improvement. Importantly established service standards also enhance public communication particularly when public perception exists about problems with aspects of SA Water's service. We have had reasonably recent history of this in South Australia with sustained media commentary suggesting that there have been too many burst water mains. Agreed and established service standards and supporting publicly available data would most likely have assisted in telling the other side of this story, and enabling greater balance.

### 3.1.2 The methodology for setting regulated revenues

*We propose to continue using a cost-based "building blocks" methodology for determining regulated drinking water and sewerage revenues.*

The building blocks approach is supported, though it will be important that there is solid consultation with consumer interests and other stakeholders about the starting point for the building blocks. Where building blocks are based on current performance, consumers need to be satisfied that current performance is efficient. We are not convinced that this is the situation currently

### 3.1.3 The methodology for reviewing forecast capital and operating expenditure

*The maximum revenue caps will reflect the prudent and efficient costs of providing drinking water and sewerage services, having regard to:*

- The effectiveness of SA Water's long-term plans for the management and financing of its operations*
- The extent to which SA Water's costs are driven by competitive forces, for example through competitive procurement and market testing.*

This approach is supported, noting that as a regulated monopoly for significant parts of its business, reasonable proxies for 'competitive forces' will need to be established.

### 3.1.4 RoR

*Proposed Principles for setting SA Water's regulatory rate of return.*

*General principle: The rate of return should reflect the prudent and efficient financing strategy of an incumbent large water utility which minimises expected costs in the long term, on a risk-adjusted basis.*

- *Supporting principle 1: The rate of return should reflect a long-term obligation on the utility to provide reliable and secure water and sewerage services to consumers. It should not solely reflect the new entrant cost of capital.*
- *Supporting principle 2: The rate of return should provide an incentive for SA Water to incur prudent and efficient investment in regulated assets and financing costs.*
- *Supporting principle 3: The approach to setting the regulatory rate of return should be based on consistent principles over time and should be predictable. It should change only to reflect material changes in evidence or regulatory practice.*
- *Supporting principle 4: The assumed prudent financing strategy should not depend on the ownership of the regulated business (i.e. the approach is indifferent to whether the entity is in Government or private ownership).*

**As a general principle, we suggest that the rate of return should reflect the prudent and efficient financing strategy of an incumbent, government owned large water utility. Consequently we reject the proposed supporting principle 4, because ownership does make a difference to prudent financing strategy. Government ownership impacts on financing arrangements particular risk premiums which impact ultimately on the price customers pay. As a government owned utility with regulated return, this is a very low risk business for financing and this should be reflected in financing costs.**

The first three principles are supported with the notions of efficiency and predictability over time being most important.

We also note that the Australian Energy Regulator is currently undertaking a comprehensive review of its rate of return guidelines, we anticipate that there will be some material coming from this review which will be of value in determining the rate of return for SA Water, particularly regarding establishment of parameters including risk-free rate and market risk premium.

### **3.1.5 The methodology for calculating the regulated asset base**

*In SAW RD16, the value of the regulated asset base at 1 July 2016 was set by rolling forward the value that applied at 1 July 2013, by updating it for actual capital expenditure incurred, asset disposals and regulatory depreciation during the three-year period. Actual capital expenditure incurred was adjusted in areas where we concluded that capital expenditure was not prudent and efficient (following an ex-post review of capital expenditure). Those inefficient costs were not reflected in the capital expenditure that was rolled into the regulated asset base.*

*We propose to use the same roll forward approach in SAW RD20,*

We recognise the importance of the regulated asset base in determining final prices customers pay. We also recognise the transition that has occurred from SA Water setting its own prices through to an independent regulator setting prices.

It is difficult for us to be convinced that the current value with the regulated asset base for SA Water is efficient. Current evaluation is based on rolling forward the value's established five or more years ago when prices were set in a different manner.

**We are aware that there have been adjustments made to the value of the regulated asset base since 2013 but believe that the most appropriate next step, from a consumer perspective, is for an independent evaluation of the SA Water regulated asset base to be undertaken and to be used as a starting point for the next regulatory period.**

## Concluding Comments

While supportive of most of the Framework and Approach that has been presented by ESCoSA, we consider the role that consumers can and should play is understated and lacks the signalling that consumers are a crucial partner in what should be a tripartite process involving consumer interests, ESCoSA and SA Water. There needs to be a strengthening of the role of consumer interests as active participants in the regulatory process, involved with two-way dialogue and negotiation rather than as recipients of one-way information provision. We overstate the dichotomy to make the point.

We encourage ESCoSA to use a Framework and Approach document to more clearly signal desired future directions for regulation of SA Water services, beyond the next regulatory period.

The question of resourcing to consumer engagement in SA Water regulatory process continues to be problematic. Uniting Communities has written separately to both SA Water and ESCoSA to raise these concerns.