The Hon Rob Lucas MLC

TRS18D1891

Government of South Australia

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Mr Brett Rowse
Chairperson and Commissioner
Essential Services Commission of South Australia
GPO Box 2605
ADELAIDE SA 5001

Dear Mr Rowse

I am writing to provide you the Pricing Order under section 35 of the *Water Industry Act 2012*, for the regulatory period 1 July 2020 to 30 June 2024.

This pricing order has been prepared in order to provide information that would assist the Essential Services Commission of South Australia (ESCOSA) to prepare its Draft Determination for SA Water's drinking water and sewerage services for the regulatory period 1 July 2020 to 30 June 2024.

A further pricing order may be issued to vary this pricing order prior to ESCOSA issuing its Final Determination. These variations may be required in response to matters raised by ESCOSA in its Draft Determination or the Independent Inquiry into Water Pricing in South Australia once the Government has considered these matters and developed an appropriate response.

The attached Pricing Order has been prepared on a basis that is consistent with the policy position of the second regulatory period from 1 July 2016 to 30 June 2020 and with the intention that it can be read as a stand-alone pricing order, rather than in conjunction with previous pricing orders.

Yours sincerely

Hon Rob Lucas MLC
Treasurer

28 October 2018

Att.

WATER INDUSTRY ACT 2012 (SECTION 35)

PRICING ORDER

FOR THE REGULATORY PERIOD 1 JULY 2020 – 30 JUNE 2024

PREAMBLE

This pricing order has been prepared in order to provide information that would assist the Essential Services Commission of South Australia (ESCOSA) to prepare its Draft Determination for SA Water's drinking water and sewerage services for the regulatory period 1 July 2020 to 30 June 2024. This pricing order does not take into account matters being considered by the South Australian Government's Independent Inquiry into Water Pricing in South Australia.

A further pricing order may be issued to vary this pricing order prior to ESCOSA issuing its Final Determination. These variations may be required in response to the Independent Inquiry into Water Pricing in South Australia once the government has considered these matters and developed an appropriate response, together with any matters raised by ESCOSA in its Draft Determination.

Pursuant to section 35(4) of the *Water Industry Act 2012* (**the Act**), the Treasurer hereby issues the following pricing order (**this Order**).

1. INTERPRETATION

1.1 Where a term is used in this Order is defined in the Act, it has the meaning given in the Act.

1.2 In this Order, unless the contrary intention appears:

determination means a determination of the Commission under section 35 of the Act and Part 3 of the *Essential Services Commission Act 2002* (**the ESC Act)** made in respect of retail services;

drinking water retail service means a retail service constituted by the sale and supply of water of a quality fit for human consumption but does not include an excluded retail service;

sewerage retail service means the sale and supply of sewerage services for the removal of sewage but does not include an excluded retail service;

excluded retail service means:

a) standard and non-standard connection services (including developer services)
b) trade waste services
c) non-domestic hauled waste services
d) easement extinguishment and encumbrance services
e) hydrant and fire plug services
f) meter services
g) network analysis and audit services

Initial Pricing Order means the order issued by the Treasurer pursuant to section 35(4) of the Act dated 24 September 2012;

NWI Principles means the Nation Water Initiative Pricing Principles 2010 agreed by Australian governments as the basis for setting water prices / charges in their jurisdictions, as amended or replaced from time to time;

NWI Principles for Recovering the Costs of Water Planning and Management Activities means the Principles for recovering the costs of water planning and management activities which form part of the NWI Pricing Principles, as amended or replaced from time to time;

NWI Principles for the Recovery of Capital Expenditure means the Principles for the recovery of capital expenditure which form part of the NWI Pricing Principles, as amended or replaced from time to time;

NWI Principles for Urban Water Tariffs means the Principles for urban water tariffs which form part of the NWI Pricing Principles, as amended or replaced from time to time;

third regulatory period means the four year period commencing 1 July 2020.

2. APPLICATION

2.1 This Order is to take effect from the date that it is signed.

2.2 Part 3 of this Order applies so as to vary the Initial Pricing Order.

2.3 Parts 4, 5 and 6 of this Order are to apply to a determination for the third regulatory period in respect of drinking water retail services and sewerage retail services provided by SA Water.

2.4 For the avoidance of doubt, the Commission must ensure that any draft of a determination to which this Order will apply and which is provided to any person in accordance with section 26(1) of the ESC Act is prepared consistently with, and complies with, all applicable requirements of this Order.

3. VARIATION OF INITIAL PRICING ORDER

3.1 Clause 2.2 of the Initial Pricing Order is varied by deleting the words "Part 3 of this Order is to apply to any determination" and replacing them with the words "Part 3 of this Order is to apply to a determination for the initial regulatory period and the second regulatory period (being the four year period commencing 1 July 2016)".

4. ADOPTION OF NWI PRINCIPLES

4.1 Subject to Parts 5 and 6 of this Order, the Commission must adopt or apply the NWI Pricing Principles (other than the Principles for Recovering the Costs of Water Planning and Management Activities) when making a determination, to the extent that those, or any of those, principles are relevant to the determination in question.

5. SA WATER DRINKING WATER AND SEWERAGE RETAIL SERVICES

The Commission must adopt or apply the following parameters, principles or factors when making a determination to which this Order applies:

5.1 The third regulatory period must be adopted as part of the determination.

5.2 The determination must only determine the total revenue which may be derived from the provision of drinking water retail services and sewerage retail services.

5.3 The determination must apply a separate total revenue control for drinking water retail services and sewerage retail services respectively.

5.4 The determination must not establish, or require the establishment of, a revenue control for a drinking water retail service or a sewerage retail service based on customer class or location.

5.5 The determination must include a mechanism which allows for the adjustment of the total revenue which may be derived where the Commission determines there to be a relevant and material variation between forecast and actual rates of water consumption or sewerage connections. The adjustment mechanism must operate on the basis of efficient costs associated with variations in demand, and so as to promote a stable price path for retail services.

5.6 The determination must include a mechanism which allows for the adjustment of the total revenue which may be derived where the Commission determines appropriate as a result of the occurrence of an event beyond the control of SA Water which has or will have a material impact on the cost of provision of a drinking water retail service or a sewerage retail service during the regulatory period. The adjustment mechanism must operate on the basis of efficient costs attributable to the event, and so as to promote a stable price path for retail services.

5.7 The determination must adopt or apply the NWI Principles for the Recovery of Capital Expenditure, subject to the determination allowing SA Water to recover the efficient cost of assets acquired (or to be acquired) after 1 July 2016, which are required to support activities that SA Water is required to provide in accordance with a direction under section 6 of the *Public Corporations Act 1993*.

5.8 The determination must adopt or apply Principle 1 of the NWI Principles for Urban Water Tariffs, subject to the following:

5.8.1 in relation to costs relating to externalities (including water planning and management), the determination must only allow SA Water to recover such costs as are attributable to and payable by SA Water in accordance with the law, including a direction under section 6 of the *Public Corporations Act 1993*;

5.8.2 the determination must allow SA Water to recover such costs (less any relevant contributions to such costs that it receives) that are attributable to activities that SA Water is required to provide in

accordance with a direction under section 6 of the *Public Corporations Act 1993* and are either:

a. specified in the relevant direction, or if not specified,

b. determined by the Commission to be efficient.

6. PREPARATION AND PRESENTATION

6.1 The determination must be prepared and presented consistently with "*the Regulated Asset Base (RAB), or building blocks approach*" as described in the NWI Principles for the Recovery of Capital Expenditure (subject to clause 5.7 above).

6.2 In particular, the determination must identify the assumptions on which it is based, including the method of calculation of, and monetary value assigned to, each of the following parameters for the purposes of the determination:

6.2.1 the RAB is to be rolled forward consistently with Principle 5 of the NWI Principles for the Recovery of Capital Expenditure;

6.2.2 the rate of return of the RAB (which should be consistent with Principle 1 of the NWI Principles for the Recovery of Capital Expenditure);

6.2.3 any allowance for working capital (i.e. any allowance considered appropriate to adjust for the lead or lag in cash flow as a result of incurring costs in providing services and receiving payment for those services);

6.2.4 the rate of return of capital (depreciated), including its method of calculation, and any adopted classifications of, or remaining life attributable to, the regulatory assets of which it is based;

6.2.5 operating expenditure (which should include efficient operational, maintenance and administrative costs);

6.2.6 the costs of externalities, consistent with clause 5.8.1; and

6.2.7 any allowance for tax paid (which should be identified separately from the rate of return on the RAB where the weighted average cost of capital (WACC) is calculated on a post-tax basis).

6.3 Where the Commission anticipates a likely material variation in either the method of calculation of, or monetary value assigned to, any of the parameters identified in clause 6.2 as between any draft of the determination to which this Order will apply in accordance with clause 2.4, and the relevant final determination, then the draft of the determination must identify, in relation to any such anticipated likely material variation:

6.3.1 the relevant parameter;

6.3.2 the likely causes;

6.3.3 where the anticipated variation is to the monetary value assigned to a parameter, the likely magnitude and direction.

7. VARIATION

This order may be varied by a subsequent pricing order issued under section 35 of the Act.

Hon Rob Lucas MLC

TREASURER

28/ 10/ 2018