

SUBMISSION

TO | Essential Service Commission of SA

TOPIC | SA Water Regulatory Proposal, 2020-24

DATE | January 2020

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CARF Funding. The participation in responses to this Inquiry by Uniting Communities is possible due to funding received from the CARF (Consumer Advocacy Research Fund). The views expressed through our engagement cannot be regarded as reflecting those of the SA Government as provider of CARF funding.

About Uniting Communities

Uniting Communities works across South Australia through more than 100 community service programs, including: aged care, disability, youth services, financial inclusion, homelessness intervention, foster care, family and financial counselling. Our team of staff and volunteers support and engage with more than 20,000 South Australians each year. We strive to build strong and supportive communities, to help people realise their potential and live the best life they can.

We have a long-standing role as a provider of financial counselling services and have observed over recent years that utilities affordability is the number one presenting issue across our financial counselling services. Consequently, we have actively engaged in advocacy and engaged with energy and water businesses and regulators to seek to make these essential services more affordable.

This submission builds on the experience of thousands of financial counselling interviews, provision of a diversity of other support services to lower income and disadvantaged households along with a decade and a half of active engagement in utilities policy and regulation advocacy.

Uniting Communities Manager of Advocacy and Communications, Mark Henley, was a member for the Consumer Negotiation Committee (CNC) that engaged in active discussion for SA Water during 2019, in accordance with the process for engagement outlined in the ESCoSA Final Framework and Approach paper for the regulatory determination, 2020-24 (RD20). This submission is separate from the CNC process and does not consider the report of the Chair of the CNC, John Hill. We will engage with review for the process that included the CNC when ESCoSA undertakes this process.

Executive Summary

Uniting Communities' main focus in considering the costs of services is impacts on private sector renters, the poorest people in our communities. We conducted an online survey of renters, regarding water and sewerage costs, with some results being:

- 34% of people surveyed said that there had been a time, over the last 2 years, when they were unable to pay their SA Water bill on time. This supports our concern that renters are vulnerable to high and rising SA Water (and other) essential service costs.
- 46%, nearly half, of the people who were unable to pay bills on time, faced this dilemma more than once.
- 91% of people who had problems paying bills on time did not seek help from SA Water or their landlords.

SA Water should seek to better understand the situation of renters as bill paying customers and seek to have closer relationships with them, including making hardship support more accessible for renters.

Uniting Communities reading of the various consultation processes and our own client's experiences suggests to us that the main customer priorities for Our Plan 2020-24 are lower prices as top priority, followed by

1. Safe water and sewerage services
2. Reliable services
3. Environmental responsibility.

The stewardship of an essential service, water supply, and a crucial 'merit good,' sewerage, means that SA Water must do all that is possible to ensure that water and sewerage services are readily available and affordable, including for lowest and lower income people – this equity / fairness responsibility is not adequately considered in the 2020-24, "Our Plan" Proposal.

Regarding operating costs, opex, with a high priority on lower water and sewerage bills, operating costs provides a key focus of expenses that are controlled by SA Water. We are concerned that too much emphasis for cost savings has been put into the ZCEF (Zero Carbon Energy Future) saving with exogenous savings also relied upon. The increase in operating costs, excluding ZCEF suggests that there is room for SA Water to more closely scrutinise their controllable opex costs to apply further reductions for all bill paying customers.

For capital costs, capex, we suggest that there is scope for reduction, particularly for the following proposed capex items

- Regional non-drinking water quality improvement. We agree that customers paying for drinking quality water should be receiving drinking quality water. A cost of \$38.2 million dollars to assist 340 customers is \$112,000 per customer appears to be a very high cost per improvement.
- Metropolitan Adelaide Water Quality Improvement. We consider a cost of about \$50million to upgrade of the Happy Valley Treatment Plant to improve the 'taste' of water to be in the 'nice to do' not 'necessary to do' category and so could be removed from the capex budget.
- Regional Community Support. We suggest that there could be lower cost options to achieve the goals of this program that could be developed with greater, open engagement with communities.

For IT cost proposals, we are not convinced that all of the IT expenditure proposed by SA Water is absolutely necessary, and consequently some expenditure that is proposed may be in the interests of some customers, but not necessarily in the best interests of all customers.

Regarding pricing, indicative SA Water projections for price impacts of RD20 show that lower use customers pay a higher 'unit cost' for water than higher use customers, right through the period 2020-24. We encourage SA Water to seek to more equitably apply cost savings across its customer base with greater benefit going to lower water users than is indicated by their projections. For reasons of equity, we continue to support charging for sewage based on property values as being an efficient, fair and responsible approach to charging for a critically important merit good.

Context

“Lower rate cost....water is a necessity item.” – a renter responding the survey question: *What would most help you to be able to better afford water and sewerage costs?*

This submission is presented at a time of mounting financial stress for a growing number of people. Uniting Communities is particularly concerned about strategies and processes to improve the quality of life for the lower and lowest income people in our communities. A part of improving quality of life is to improve cost of living, this includes affordable essential services. Shelter, as housing, water and energy are core essential services and in a fair society are affordable for everyone.

The ‘lens’ through which Uniting Communities has considered the SA Water “Our Plan 2020-24” regulatory proposal is its likely impact on poorer members of the SA community, an approach summarized as ‘Rawlsian’ from the perspective of equity described by philosopher John Rawls, which we understand as meaning that a fair society is one that seeks to most improve the situation of the poorest member of society, in any policy or related action.

We contend that the SA Water proposal should be considered, at least in part, by its likely impacts on the poorest people in SA Society. Since tariff setting for individual customers is a process that is subsequent to the determination of the aggregate revenue allowance, Uniting Communities has considered the 2020-24 regulatory proposal from the perspective of the lowest, efficient allowance so that the revenue to be recovered from customers, particularly poorer customers, is as low as is reasonable. We also contend that the best outcome for the poorest members of society, in this instance for access to two essential services: potable water and sewerage services, are generally the best outcomes for all households, as well as small businesses and (smaller scale) primary producers. Getting the regulatory decision ‘right’ for the poorest members of our communities is also the right decision for most customers.

In general, the poorest people in South Australia are renting from the private sector. This creates a dilemma for SA Water, who do not regard renters as their customers, the landlord is. Approximately 30% of households are renters. We return to this issue later in this submission. Our starting point, in context setting, has been to better understand the perspectives of lower income renters, with regard to water and wastewater costs.

The following are the results of a survey we conducted during 2019, through social media, or renters’ experiences of water and wastewater affordability. The survey was responded to by 156 people, which we consider to be reflective of a perspective from lower income renters. We are presenting most of the responses to the survey, in the order that the survey questions were asked, understanding that not all questions are directly relevant to the SA Water 2020-24 proposal, but many are. We highlight the following results:

- 34% of people surveyed said that there had been a time, over the last 2 years, when they were unable to pay their SA Water bill on time. (Q4) This supports our concern

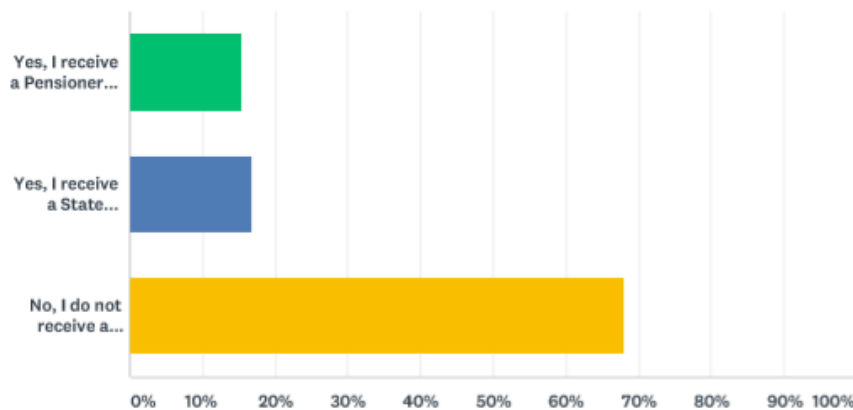
that renters are vulnerable to high and rising SA Water (and other) essential service costs.

- 46%, nearly half, of the people who were unable to pay bills on time, faced this dilemma more than once. (Q5)
- 91% of people who had problems paying bills on time did not seek help from SA Water or their landlords. (Q6)
- 70% of responders actively seek to reduce water use in order to reduce their SA Water bills (Q10)

Results of Social Media survey of SA Renters, 2019

Q2 Do you receive a concession to help pay water and sewerage bills?

Answered: 156 Skipped: 0

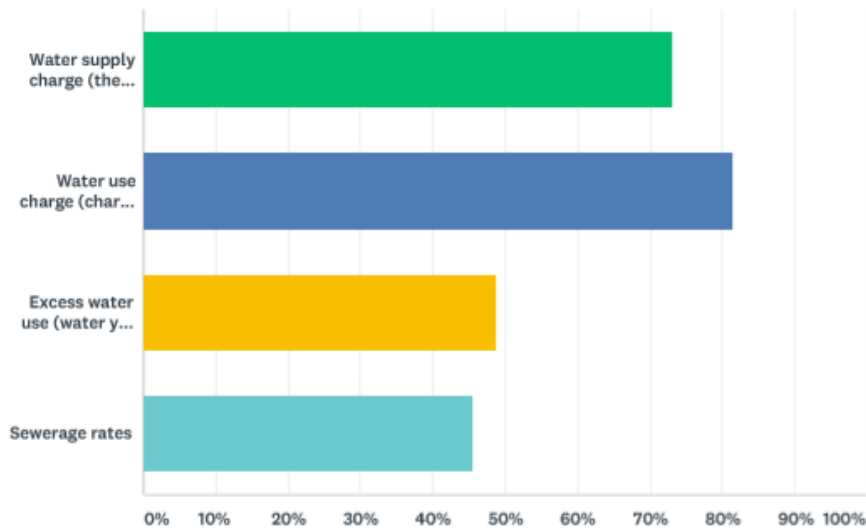


ANSWER CHOICES	RESPONSES	
Yes, I receive a Pensioner Discount	15.38%	24
Yes, I receive a State Government Concession Payment	16.67%	26
No, I do not receive a concession	67.95%	106
TOTAL		156

#	ANY COMMENTS?	DATE
1	Can't, as water is in landlord's name	4/24/2019 11:07 AM
2	unsure	4/2/2019 12:28 PM
3	Due to apply now that I have my first bill	4/2/2019 11:58 AM
4	So I don't use what I require (budget)	4/2/2019 11:48 AM
5	Have not applied	4/2/2019 11:45 AM
6	Shared meter & housing SA pays part	4/2/2019 11:42 AM
7	As yet, I have never accessed! Don't know how.	4/2/2019 11:15 AM
8	I have had concessions previously when on Centrelink benefits, before obtaining work.	2/22/2019 1:09 PM
9	SA Govt. Concession amount is appreciated.	2/21/2019 4:11 PM

Q3 Regarding water and sewerage costs, which of the following do you pay for? (Select as many as applicable)

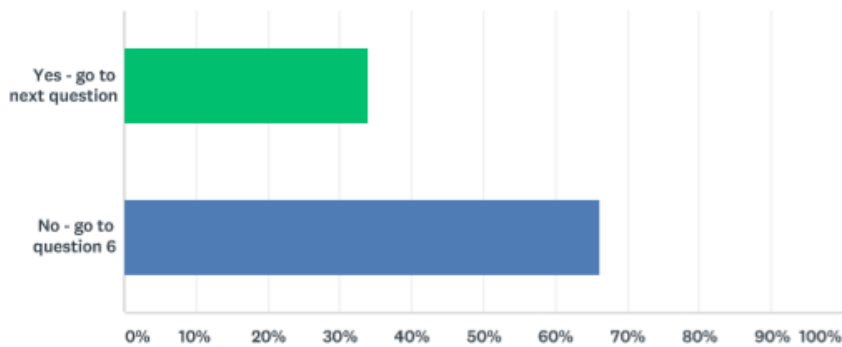
Answered: 156 Skipped: 0



ANSWER CHOICES	RESPONSES	
Water supply charge (the cost of the water pipe coming to your home)	73.08%	114
Water use charge (charge for the actual water you use)	81.41%	127
Excess water use (water you use over an allowed limit)	48.72%	76
Sewerage rates	45.51%	71
Total Respondents: 156		

Q4 In the past two years, have there been times you couldn't pay your water and sewerage bill on time?

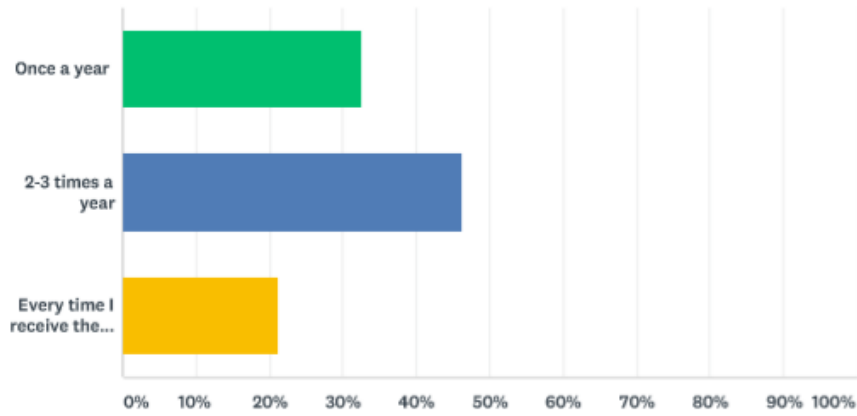
Answered: 156 Skipped: 0



ANSWER CHOICES	RESPONSES	
Yes - go to next question	33.97%	53
No - go to question 6	66.03%	103
TOTAL		156

Q5 If “yes”, approximately how many times in a year are you unable to pay your water and sewerage bill?

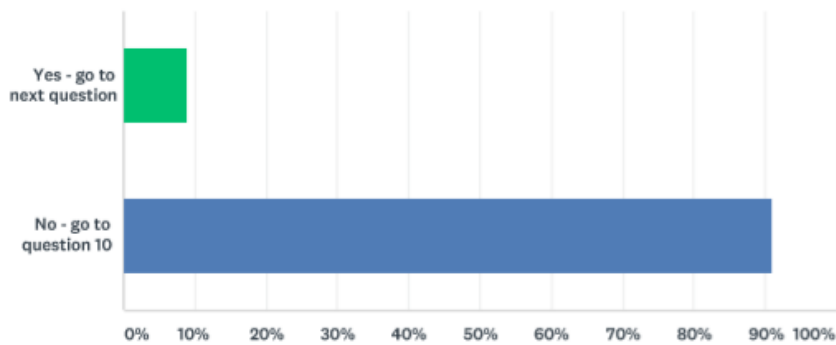
Answered: 52 Skipped: 104



ANSWER CHOICES	RESPONSES	
Once a year	32.69%	17
2-3 times a year	46.15%	24
Every time I receive the bill	21.15%	11
TOTAL		52

Q6 Have you ever asked for help from SA Water or your landlord to pay your bills?

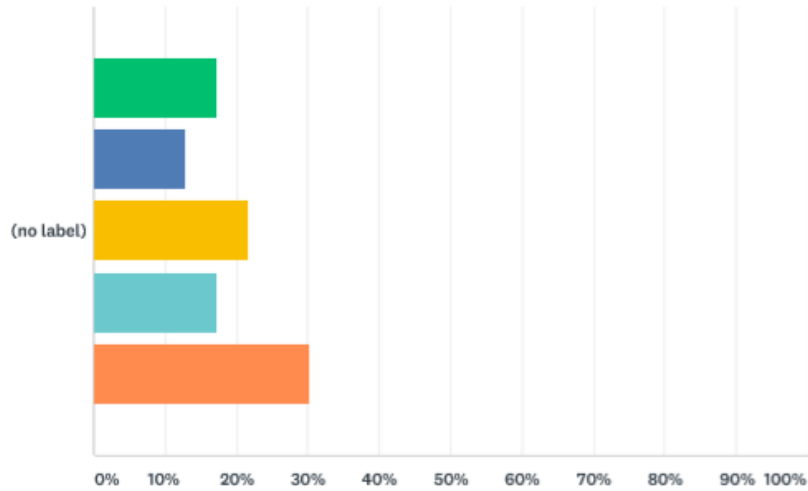
Answered: 156 Skipped: 0



ANSWER CHOICES	RESPONSES	
Yes - go to next question	8.97%	14
No - go to question 10	91.03%	142
TOTAL		156

Q7 How helpful was their response?

Answered: 23 Skipped: 133



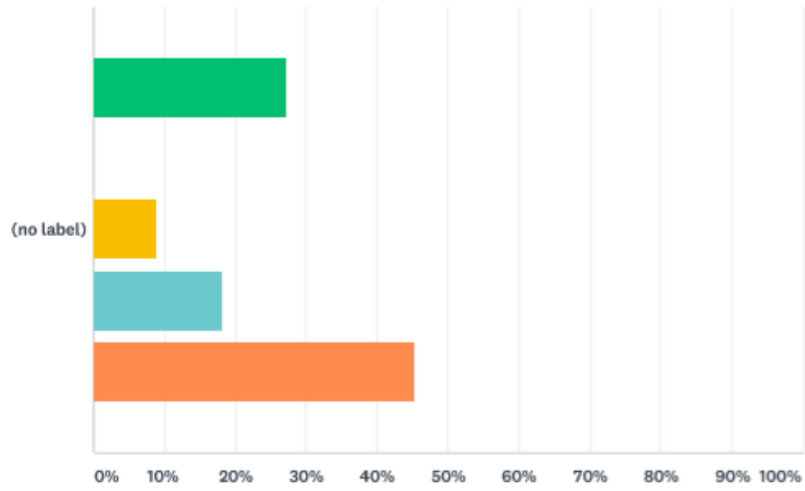
■ Very unhelpful
 ■ Quite unhelpful
 ■ Neither helpful nor unhelpful
■ Quite helpful
 ■ Very helpful

	VERY UNHELPFUL	QUITE UNHELPFUL	NEITHER HELPFUL NOR UNHELPFUL	QUITE HELPFUL	VERY HELPFUL	TOTAL	WEIGHTED AVERAGE
(no label)	17.39%	13.04%	21.74%	17.39%	30.43%	23	3.30
	4	3	5	4	7		

#	ANY COMMENTS?	DATE
1	Mother just passed away on 29-12-18. Have been changing bills into my name	4/2/2019 12:28 PM
2	I pay through the landlord's bill	4/2/2019 11:35 AM
3	Lucky to get appointment	4/2/2019 11:34 AM
4	Hard to understand the process, also difficult to initiate. Still have not completed.	4/2/2019 11:15 AM
5	SA Water - Ask to Pay bill via regular instalments, Used of question so I work out how much can pay and dates. As long as current bill is payed by the time next bill arrives SA Water always accepts this.	3/26/2019 12:02 PM
6	It was for me to be able to extend payment on a bill to avoid disconnection.	2/26/2019 5:22 PM
7	paid in installments to housing sa	2/26/2019 2:10 PM
8	We actually had to go on Newstart to pay their charge for installation of sewage which we did not want and are not connected to.	2/22/2019 7:35 PM
9	In the long run it has to be paid but if bill is extremely high by my measures I have to make installment payments. I am happy to say that they do allow this but then some other item on the budget has to be sacrificed in order to do so.	2/22/2019 11:09 AM

Q9 Was the hardship program helpful?

Answered: 11 Skipped: 145



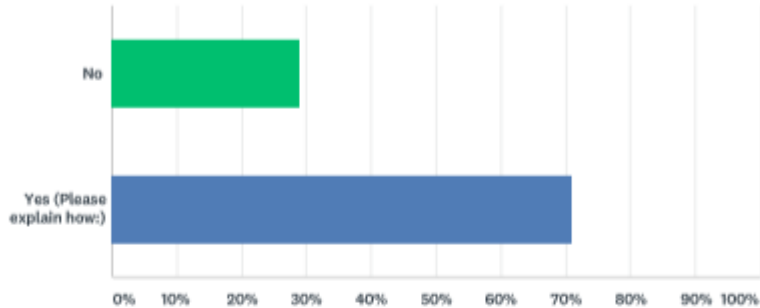
■ Very unhelpful
 ■ Quite unhelpful
 ■ Neither helpful nor unhelpful
■ Quite helpful
 ■ Very helpful

	VERY UNHELPFUL	QUITE UNHELPFUL	NEITHER HELPFUL NOR UNHELPFUL	QUITE HELPFUL	VERY HELPFUL	TOTAL	WEIGHTED AVERAGE
(no label)	27.27%	0.00%	9.09%	18.18%	45.45%	11	3.55
	3	0	1	2	5		

#	ANY COMMENTS?	DATE
1	Water is divided into 3 units so I only pay 1/3 of use charge	4/2/2019 12:28 PM
2	Didn't know about it	3/1/2019 6:09 PM
3	See above.	2/22/2019 11:09 AM

Q10 Do you restrict your use of water to reduce costs?

Answered: 155 Skipped: 1



ANSWER CHOICES	RESPONSES	
No	29.03%	45
Yes (Please explain how:)	70.97%	110
TOTAL		155

#	YES (PLEASE EXPLAIN HOW:)	DATE
1	shorter showers, use rain water to water garden	4/24/2019 11:21 AM
2	shorter showers and mindful about gardening	4/24/2019 11:20 AM
3	shorter showers, less water on garden	4/24/2019 11:19 AM
4	We are careful with our water and during summer my husband will take the bath water by bucket to water our lawn	4/24/2019 11:18 AM
5	-	4/24/2019 11:14 AM
6	-	4/24/2019 11:13 AM
7	don't water lawns during summer	4/24/2019 11:12 AM
8	sometimes	4/24/2019 11:11 AM
9	showers timed, etc.	4/24/2019 11:10 AM
10	Not only because of the costs, because there is no rain and the weather is so dry I don't want to waste water	4/24/2019 11:09 AM
11	Fill the washing machine full with clothes before washing, limit garden watering, short showers	4/24/2019 11:07 AM
12	Limiting time of showers. Turning off water while cleaning teeth. Limiting watering the garden.	4/9/2019 3:20 PM
13	Only washing 2 loads per week. minimal water for garden.	4/2/2019 12:29 PM
14	Water plants in pots, don't water lawn, shower every second day	4/2/2019 12:28 PM
15	-	4/2/2019 12:25 PM
16	To help environment	4/2/2019 12:19 PM
17	-	4/2/2019 12:10 PM
18	Don't water garden and try to save where I can	4/2/2019 12:09 PM
19	-	4/2/2019 12:07 PM
20	Shower less can't afford it	4/2/2019 12:02 PM
21	Just circumspect in usage ie. try to limit water	4/2/2019 11:58 AM
22	Shower less	4/2/2019 11:53 AM

Uniting Communities considers that renters are not well understood by SA Water as bill paying customers. We recognise that this limited focus on renters is a function of the SA Water Industry Act which regards property owners as SA Water customers, but we highlight that in a rental arrangement it is the renter, not the landlord, who ultimately pays the bill.

We urge SA Water to continue to better understand the situations of renters, particularly lower income renters and to look to approaches that provide more opportunities for SA

Water to have a direct relationship with renter households and to ensure that renters are aware of and have ready access to hardship assistance where needed.

Mandating the requirement of providing water efficient fixtures if landlords wish to pass on the supply charge.

– a renter responding the survey question: *What would most help you to be able to better afford water and sewerage costs?*

Specific Responses to “Our Plan 2020-24”

In presenting the priorities for their plan, SA Water says “We will do more for less, while delivering a price reduction.” This objective is supported and regarded by Uniting Communities to be the primary objective of the proposal. Additional objectives need to be regarded as subordinate to this objective, the additional objectives being:

- improve the taste of drinking water in Adelaide and the quality of some regional supplies
- continue investing to further reduce the impact of water main breaks...
- increase the amount of water recycled for productive second life, and contribute to economic growth and increased urban livability
- further improve the ways that the environment is protected and enhance the natural environment.

With these priorities stated, the following considers some of the aspects of the SA Water “Our Plan” proposal, in the order presented in the plan overview document

Consumer Engagement

SA Water says “customers are at the heart of our business and have shaped our plans for the future.” We recognize that SA Water has sought to actively engage with customers in developing their plan for 2020-24. It is understood that SA Water engaged with “more than 12,000 customers” through online and face to face methods “about what matters to them when it comes to water and sewerage services.” These efforts are welcome.

In considering the consumer engagement outcomes, particularly from both the overview document and appendix B “Customers shaping the future,” yet we perceive a lack of consistency in the main elements of what SA Water heard from consumer input.

In appendix B, the following graphic is presented as demonstrating what is “most important to customers”, with the five most important components being:

1. safe water
2. minimal disruptions
3. price and service stability
4. water security
5. consistent, high quality water

We suggest that this list is not fully consistent with the list of priorities listed at the commencement of the “Our Plan” proposal. For example, the ‘appendix B’ list (for sake of description) has joined price and service issues with a focus on stability, yet we are clear that the feedback from customers is for lower prices. Similarly, environmental responses feature in one list, but not the Appendix B list.

Figure B.2: What is most important to our customers (2016-17 research)

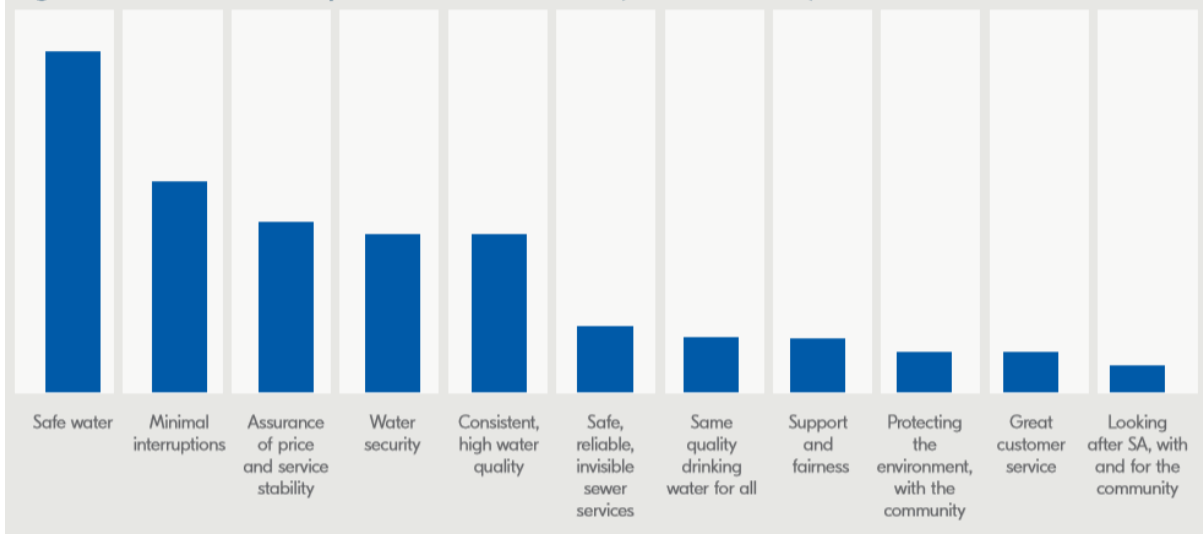


Figure 1, Source SA Water Our Plan 2020-24, Appendix B

In section 3.2 of the 'Our Plan' document, the following are listed as the stage 1 customer insights:

- Low and Stable Pricing
- Safe water. Quality water
- Reliable water and sewerage services
- Protecting the environment
- Support, fairness and great customer service.

This list again recasts the main consumer priority of lower prices for "low and stable pricing" and lists both 'support and fairness' and 'great customer service' as insights from customers, yet both have low levels of support in the Appendix B, importance to customers research results.

We also think that bringing together 'fairness' and 'support' diminishes clarity about the meaning of both, which are very different concepts and when added to 'great customer service' as a single combined insight from the 'Our Plan section 3.2' creates a combined insight that has limited, practical meaning.

For us, there is further confusion about the priorities that SA Water heard from customers when the list of 'proposed service standard service areas, from Table 1, section 3.3 of the Our Plan document is considered.

This table lists the service areas as:

- Customer service
- Reliability
- Connections
- Response
- Restoration

For us, service standards should reflect customer priorities, yet this list of service areas appears to have elevated a low priority area for customers, “great customer service” (SA Water’s figure B2) to being an SA Water priority, likely diminishing the focus SA Water applies to higher priorities for customers.

We encourage both SA Water and ESCoSA to closely consider the question of what THE key priorities for SA Water customers are for the period 2020-24.

Uniting Communities reading of the various consultation processes and our own client’s experiences suggests to us that the main customer priorities are:

1. Lower prices
2. Safe water and sewerage services
3. Reliable services
4. Environmental responsibility.

Fairness and equity

The SA Water, Our Plan proposal mentions fairness occasionally, but tends to add it to other measures that are then subsumed into a more general ‘customer service’ category. This misses the point concerning fairness.

The following text box is a sample of responses received to the survey of tenants and Uniting Communities conducted.

The comments reflect that cost pressures faced by many lower income people. The comments also reflect different pressure for people at different states of life, eg home owner aged pensioner can face some different issues to younger people and families who are renters.

The reality is that water is an essential service, the most essential, essential service, without access to safe water, health is seriously compromised. Sewerage is a merit good. (A merit good is one where the benefits of ‘consumption’ are greater for the community than the benefits derived by aggregating individual consumption. Consequently, merit goods will generally be under-supplied in a market economy. A reasonable role of Government is to ensure that adequate levels of merit goods are provided.)

What would most help you to be able to better afford water and sewerage costs?

- *reduced cost*
- *Having access to a payment plan to pay-off the water bill over time.*
- *Water charges reasonable/manageable. Also, my water supply charge is spread over 10 units in the enclave*
- *Cheaper water*
- *Not sure*
- *I don't know.*
- *Save water - or it goes to sea*
- *Hot water service could be reliable.*
- *cheaper accounts*
- *Better education on Water usage (how to save water)*
- *Rebates for water tanks, storage (collect used grey water from house, laundry, dishwasher, etc) but plumbing cost to collect and then use on garden are extremely expensive and can't afford to do it.*
- *Option of monthly bills (budget easier)*
- *Individual water meters for each unit rather than the property as a whole as I'm paying for more than I use as other tenants are home all day where as I am*
- *No shared water bills in public housing properties. It's unfair and outrageous.*
- *Cheaper rates*
- *For rates to drop have the most ridiculous water bills over the last 18months*
- *Cheaper rates*
- *A more affordable rating system NOT RESIDENTIAL VALUE for Pensioners.*
- *Supply charge used to be twice per year now it is quarterly and is the main expense. This needs to go back to twice per year.*
- *Reduce the charges*

– a selection of renter responses the survey question: *What would most help you to be able to better afford water and sewerage costs?*

The stewardship of an essential service and a crucial 'merit good' means that SA Water must do all that is possible to ensure that water and sewerage services are readily available and affordable, including for lowest and lower income people – this equity / fairness responsibility is not adequately considered in the 2020-24, Our Plan Proposal.

For example, the following comment is given in appendix B of the regulatory proposal.

"While keeping prices low and stable is important to our customers, they would like to see service improvements where they are willing to pay for them."

In response to feedback from our customers, we are planning to spend \$1.8 billion in infrastructure expenditure, \$143 million on information technology infrastructure and \$1.9 billion in operating expenditure to:

- *improve the taste of our water and provide safe, clean drinking water for all customers, regardless of where they live*
- *improve the taste of metropolitan Adelaide’s drinking water for residents, businesses and visitors*
- *minimise service interruptions and better communicate with our customers when temporary service interruptions occur*
- *provide great customer experiences through investments in technology that enable our people to provide a personalised service, offer customers more ways to engage with us digitally, and provide more information when customers want it*
- *reduce our environmental impact by increasing the recycled water services we offer for South Australian home owners and businesses*
- *support the South Australian economy by developing fit-for-purpose services and growing skills and jobs in the state.”*

This refers to a “willingness to pay” survey that SA Water conducted, however, to the best of our understanding this process had minimal input from renters, particularly those living in privately owned rental properties. Approximately 30% of the SA population are renters and the poorest people in the State are renters. While we understand that SA Water regards property owners as their customers, the reality is that the bill payers in rental properties are the renters, not their landlords. So since the “willingness to pay” methodology has significantly under-represented renters, who are generally the lower income households in South Australia, we consider the SA Water analysis of the willingness to pay survey overstates the actual willingness, and capacity to pay, across all bill paying customers. This is somewhat contrary to the SA Water recognition that ‘lower prices’ was the core customer feedback from their engagement.

*The Landlord is very slow to repair water leaks in the pipes or the toilet causing us, the renter to pay for water we are not using. We cannot complain about any issues with the property due to the fear of being evicted or the lease not being renewed. If we need to move home in the country and have a complaint on record we will not receive another rental property in the area because all the land agents talk to each other. Property renters in the country are at the mercy of the land agents.
– a renter responding the survey question: *What would most help you to be able to better afford water and sewerage costs?**

Consequently, we encourage ESCoSA to be wary of the SA Water reliance on their ‘willingness to pay’ survey results since they are very likely to overstate the aggregate willingness to pay for SA Water bill paying customers, in part because of the under-representation of poorer people, mainly from the 30% of the population who are renters, in their surveys.

We also suggest that ‘willingness to pay’ is different from ‘capacity to pay.’ Uniting Communities clients, including financial counselling clients, would like to be able to contribute more to their communities, including for environmental concerns, but rarely

have the capacity to pay, particularly in the shorter term. We are not aware of approaches by SA Water to test 'capacity to pay' separately from 'willingness to pay.'

The absence of a serious consideration of hardship responses over the 2020-24 period is disappointing and should be a priority for SA Water consultation, particularly with Financial Counsellors, over the period leading up to pricing decisions and for the ongoing work of SA Water. With over 90% of renters with payment difficulties, from our survey, not seeking assistance from SA Water, or their landlord, there is clearly work to be done to make assistance with water and sewerage bills much more accessible. We note that a clear majority of people from our survey who managed to access the SA Water hardship program found it helpful. So the main problem is with accessing the hardship program.

For home owners or people who receive a bill directly from SA Water the hardship program is excellent.

– a renter responding the survey question: What would most help you to be able to better afford water and sewerage costs?

To this point, we are not aware of SA Water analysis that utilizes data sources, other than their own, to be better understand the situation of their customers. For example, the SA Water analysis does not include any data on general cost of living pressure on their bill paying customers (eg changes in rent, energy and food costs, relative to income changes) nor do they consider employment data, SACOSS reports, State economic outlooks and other externally produced data that would provide better information about the situation of their customers.

As an area of future priority, we encourage SA Water to engage with a range of consumer interests, including households on all significant challenges and proposals. The Zero Carbon Energy Future (ZCEF) project from the current period is an example of a major decision that will be paid for by customers, for which there was minimal consumer engagement in the key decision-making processes. In the future, we would expect SA Water to be engaging on ZCEF type initiatives from initial concept stages.

Operating Costs (opex)

With consumer input strongly reflecting a desire for lower prices, every component of the SA Water regulatory proposal needs to be considered with the question, are there opportunities for responsibly reduce costs more? This question is now applied to operating costs.

Benchmarking data shows that for the current period, SA Water opex costs per customer are just below the median average cost per customer for all relevant Australian water utilities

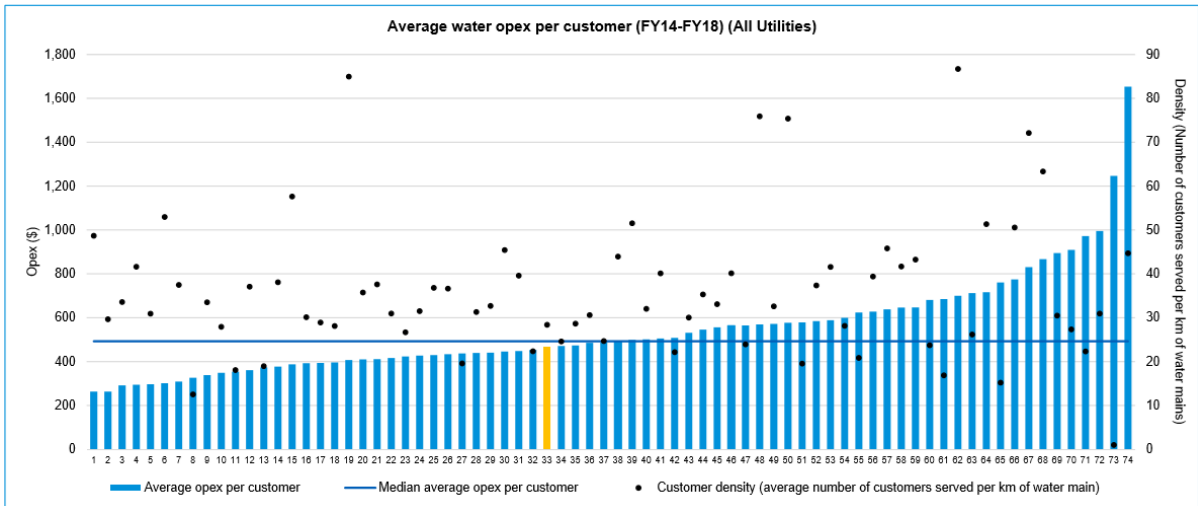


Figure 2 Source: KPMG Opex Benchmarking Report given as Appendix K, SA Water proposal RD20.

The opex per customer ‘story’ is more impressive for sewerage costs, as shown in the figure below, also taken from SA Water appendix K; the KPMG opex benchmarking report.

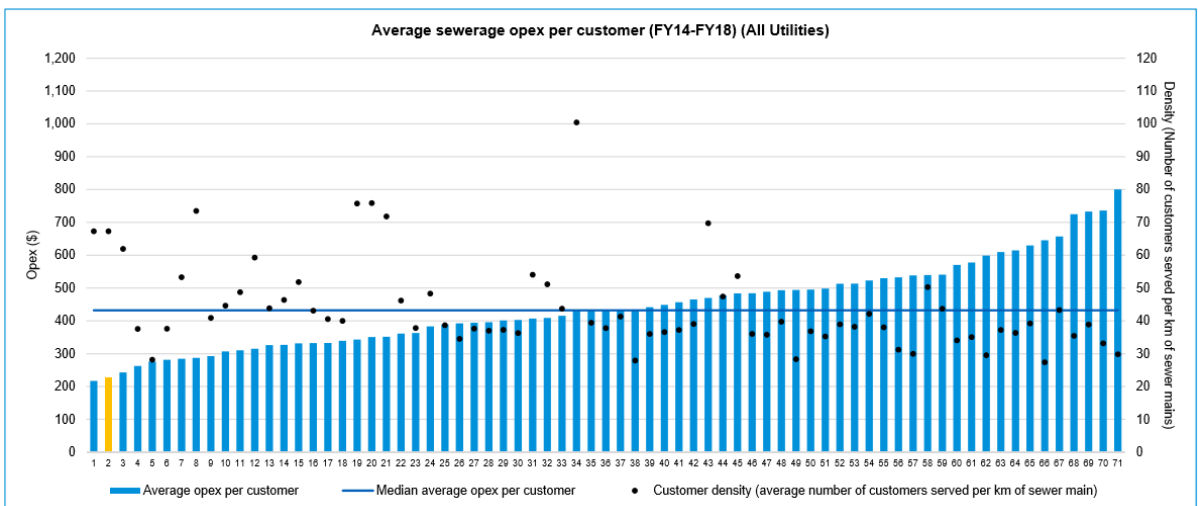


Figure 3 Source: KPMG Opex Benchmarking Report given as Appendix K, SA Water proposal RD20.

We recognise that SA Water is relatively efficient when benchmarked against their peers. The figure below shows that, using opex compared with the aggregated Customer, Length and Demand (CLD) measure. The figure shows that the industry, in total, became a little more efficient by 2017-18 when compared with 2013-14 while SA Water was more efficient than the average industry efficiency level for both benchmarked years and had efficiency improvement at a slightly greater rate than for peers.

With SA Water’s opex costs per customer for water being very near to the median average cost per customer, there is capacity for some greater opex efficiency, while more modest opex productivity improvements would be anticipated for sewerage costs.

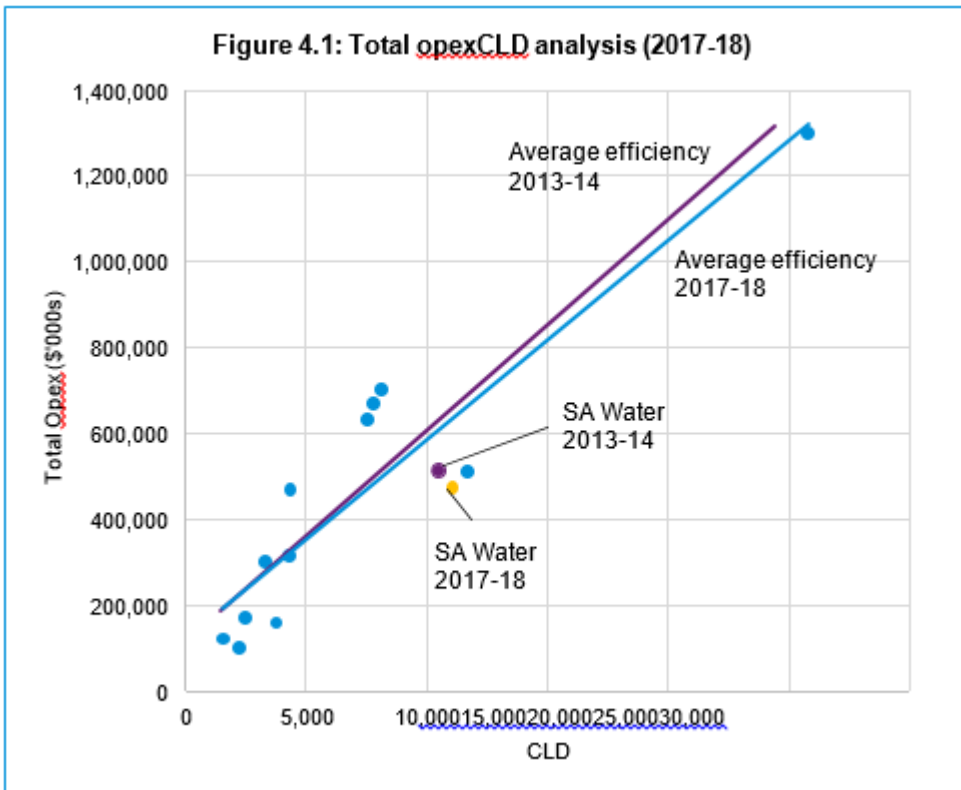


Figure 4 Source: KPMG Opex Benchmarking Report given as Appendix K, SA Water proposal RD20.

The Our Plan proposal gives the following summary of opex cost changes (figure 10 from the “Our Plan” proposal, by category, in real terms. Accepting the \$479m per year as a starting point for 2020-24, we observe increases in most categories for the regulatory period. The vast majority of opex saving come from forecast energy savings through the ZCEF project. Without ‘energy savings’, opex costs would rise by \$31 million per year, an increase of about 6.5%, which is much greater than CPI which is likely to be a less than 2% per annum.

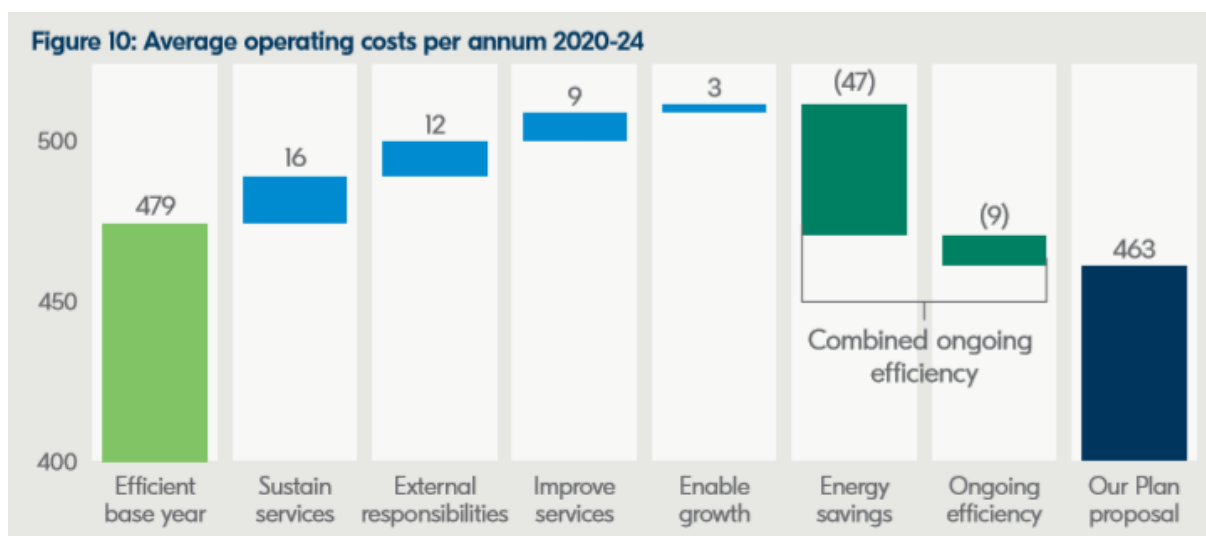


Figure 5 Source SA Water Our Plan 2020-24,

Uniting Communities is wary about the potential for the full ZCEF saving of \$47million per annum energy saving to be achieved and concerned about above CPI spending increases in the categories “sustain services,” “external responsibilities,” “improve services” and “enable growth.”

The commitment for SA Water to power all of its energy needs from renewable sources is lauded. However we are not convinced that the full ZCEF capital works program will be completed in the current regulatory period and so the opex savings for the 2020-24 period are likely to be diminished. Further, the assumptions about the extent of energy savings over the four future years, 2020-24 are predicated on assumptions about future energy prices in South Australia. Future assumptions about electricity prices are always going to be within wide bounds of predictability due to the rapidly changing nature of electricity markets and policy uncertainty. We note that SA Power Networks are foreshadowing low electricity prices for middle of the day periods due to the high levels of rooftop PV generation, particularly on days of relatively low aggregate demand. This suggests that future SA electricity prices should be lower than they have been for the current regulatory period

These, and related considerations, suggest to us that the \$47m savings from ZCEF are likely to be overstated, reducing the proposed opex savings levels.

A \$9.0m opex ‘efficiency’ saving is also indicated as the other opex saving area that will benefit consumers. We agree that an ongoing efficiency dividend is appropriate for an efficient business and note that there will be a \$2.4m reduction in the SA Water industry license fee, for 2020-24. If this is part of the \$9m efficiency dividend, we do not consider this to be appropriate as an SA Water lead efficiency measure as it is exogenous to SA Water, not part of areas of direct responsibility for SA Water management and operation

Other opex considerations

There are some other aspects of operating costs that we raise briefly here, in anticipation of further discussion early in 2020.

- Sensors / smarter network. SA Water is proposing an increased use of various sensors to better monitor their pipes network to improve capacity to predict leaks, main bursts and blockages. We strongly support the use of technology to improve the effectiveness of the business.
- Labour costs. At a time of extended, stagnant wage growth and a lack of real income growth for benefit recipients, we strongly suggest that SA Water salary increases be kept in line with those of their customers and so be no greater than CPI, in nominal growth over the 2020-24 period. SA Water claims that wage increases are occurring at greater rates than CPI+ 0.5%. This narrow approach fails to recognize the substantial number of households who have fixed incomes, through Benefits, superannuation and related incomes nor the take home pay of many casual workers. We reject the use of “wage increase” observations that SA Water has quoted as being much too narrow to reflect the static incomes of probably a majority of SA Water’s bill paying customers.
- IT costs and savings tradeoffs need to be carefully reviewed by ESCoSA

With a high priority on lower water and sewerage bills, operating costs provides a key focus of expenses that are controlled by SA Water. We are concerned that too much emphasis for cost savings has been put into the ZCEF saving with exogenous savings also relied upon. The increase in operating costs, excluding ZCEF suggests that there is room for SA Water to more closely scrutinise their controllable opex costs to apply further reductions for all bill paying customers.

Capital Expenditure, CAPEX

Capital expenditure of \$1.9 billion across SA Water operations is a very significant investment that is paid for by all SA Water, bill paying customers.

In the Uniting Communities survey of renters, fixed charges recurred as a major frustration for bill paying customers.

“More affordable supply charge and water costs.”

“A reduction in the cost of the water supply charge or discounts for low usage households.”

“Reduce the supply charges and when a fault is reported in the road or street - and it is reported attend to it immediately don't wait for the gusher and waste the water by letting it run down the road for days which causes the consumers water and sewerage rates to rise.”

– renter responses to the survey question: *What would most help you to be able to better afford water and sewerage costs?*

It is recognized that SA Water has reduced its capital expenditure over the current regulatory period and propose consolidating these capex reductions with a further 5% of capital cost reduction during the 2020-24 regulatory period. Building on these commitments, as with opex expenditure, the emphasis for SA Water and ESCoSA's consideration of the regulatory proposal must be to focus on the question of “what is necessary” as opposed to what would be ‘nice’ to do. The following comments are made against this backdrop:

- Sewerage capex. About 30% of non IT expenditure is for sewerage costs, which we understand to be a little higher than the prevailing ratio of sewerage: water in the Regulated Asset Base. We consider this to be acceptable and reflective of the merit good aspects of sewerage services and reflective of the need for further investment to maintain effective functioning of sewerage services.
- Odour reduction. The \$24m, (capex + opex) proposed for this work seems to be reasonable.

- Northern Adelaide irrigation Scheme (NAIS). We understand that releasing treated water from Bolivar treatment plant is best undertaken through the NAIS scheme, as opposed to past approaches of discharging into Gulf St Vincent. Using this treated water to support food production is sensible. We ask ESCoSA to check the incidence of costs for NAIS and the spread between SA Water customers and the users of water delivered through NAIS to ensure that bill paying residential customers are not paying more than is necessary for this project.
- Eyre Peninsula. We accept that a desalination plant is necessary for the Eyre Peninsula region and that further drawing on the Uley Basin is not likely to be sustainable. Active, open engagement with local bill payers and their communities will be crucial in effective implementation of this project.
- Dam management. The upgrades to Mt Bold, Baroota and Hindmarsh Valley seem reasonable to our understanding of the issues involved.
- Regional non-drinking water quality improvement. We agree that customers paying for drinking quality water should be receiving drinking quality water. However, this proposal from SA Water does not reflect adequate consultation with the targeted 650 properties and does not provide any information about the solutions that these household would like, based on their current situations. A cost of \$38.2 million dollars to assist 340 customers is \$112,000 per customer. This appears to be a very high cost per improvement, notwithstanding the relative remoteness of the properties involved. It appears likely that more direct engagement with the impacted customers about effective and efficient solutions to the actual issues they confront would more likely reduce the costs to be shared by all customers. We cannot support this proposal as presented.
- Metropolitan Adelaide Water Quality Improvement. This is a major expenditure component of the capital budget, \$124 million. The elements associated with improved disinfection of water are appropriate, but we understand that of the order of \$50million is proposed for the upgrade of the Happy Valley Treatment Plant, to improve the 'taste' of water. We consider this expenditure to be in the 'nice to do' not 'necessary to do' category and so could be removed from the capex budget to reduce costs to bill paying customers.
- Regional Community Support. We suggest that there could be lower cost options to achieve the goals of this program that could be developed with greater, open engagement with communities.

IT

This aspect of the SA Water budget has grown substantially over the past decade, as with other businesses and organisations.

There is potential for IT costs to escalate due to monopoly power of some IT providers and expectations by businesses of benefits that IT can deliver.

We wish to make further comments about IT early in 2020, but note that principles for consideration of the merits of elements of the \$143 million dollar bid need to include:

1. Clearly outlined and explained benefits to consumers

2. Transparent ex post review of IT expenditure against initial value propositions, including for 2016-20 period.
3. Consideration of a range of suppliers.

KPMG was engaged by SA Water to “assess the prudent city and efficiency of expenditure related to its IT plan...”

The key findings from the report are given as follows in appendix M of the “Our Plan” proposal.

“SA Water has provided adequate evidence to support the prudent city and efficiency of its IT plan. The basis for this is:

- *current expenditure is \$6.6 million less than the allowance set by ESCoSA, with all variances appropriately evidenced*
- *SA Water has established a capital planning and governance framework that is consistent with good practice*
- *SA Water has demonstrated consistent and appropriate application of this framework to capital planning and delivery*
- *SA Water is IT is considered prudent by the Customer Negotiation Committee*
- *drivers supporting the expenditure need (ie ageing assets and maintaining current service levels) are clearly described*
- *cost estimates are supported by robust evidence*
- *evidence of an appropriate scope of work*
- *detailed supporting justification documentation*
- *benchmarking analysis demonstrates that SA waters IT expenditure has historically been consistent with comparable benchmark entities.*

SA Waters increasing trend in IT expenditure aligns with anecdotal evidence of increasing IT expenditure to deliver better access to information digitisation of services, ease of communication with customers and stakeholders, increasing need for better cyber security and better workforce mobility.

...

There is still a level of uncertainty regarding the timing of expenditure, and the projects that will be delivered towards the end of the regulatory period. This is not unusual, given the short lived nature of assets, the rapidly evolving environment for IT needs and the need to be flexible to the latest market movements. As such, it would often be inappropriate to commit to technology investment five years in advance.

We also note that SA Water is yet to complete options analysis for projects that are still early in the gateway process...”

The following comments relate to a couple of aspects of the KPMG report that SA Water is using to justify their substantial IT expenditure proposals.

Firstly we note that KPMG was asked to comment on the prudence and efficiency of the IT plan. We understand prudence and efficiency meanings to be those given by the Cambridge English dictionary:

Prudency: showing good judgment in avoiding risks and uncertainties; careful

Efficient: using resources such as time, materials, or energy well without wasting any

It is of interest to us that KPMG was not asked to comment on consumer benefit from various IT expenditures nor on the operational necessity of IT expenditure proposals. The choice of prudency and efficiency are interesting choices as the basis of assessing IT spending.

Prudency is about being careful in avoiding risks and uncertainties, but an important question is from whose perspective? We suggest that carefulness and risk avoidance is from the perspective of SA Water, rather than from a customer's perspective. Risk avoidance is likely to increase the cost to customers, beyond what is absolutely necessary, to provide leeway to SA Water to be cautious and careful. So prudency is not necessarily the best measure of IT spending effectiveness from a consumer perspective.

Efficiency is about using resources without waste, but does not necessarily mean only using the resources that are necessary. So resources that are deployed beyond crucial functionality can be used without waste, and can reduce risk, so can be deemed efficient and prudent while they may not be necessary.

We are concerned that KPMG says that "SA Water's increasing trend in IT expenditure aligns with anecdotal evidence of increasing IT expenditure to deliver better access to ..." The notion of anecdotal evidence being a partial basis for justification of increasing expenditure is of concern, with the onus on SA Water to provide evidence to support IT expenditure that is well beyond "anecdotal evidence." A part of this should be exposed reviews of IT expenditure that are publicly reported and which openly report on actual benefits and costs for consumers compared to initial expectations.

Consequently we suggest that the KPMG IT report be understood as one which is saying that the IT resources proposed by SA Water will most likely be used without undue waste but this does not necessarily mean that there is not overspending proposed compared with necessary functionality in providing as efficient as possible water and sewerage services for customers.

We are not convinced that all of the IT expenditure proposed by SA Water is absolutely necessary, and consequently some expenditure that is proposed may be in the interests of some customers, but is not necessarily in the best interests of customers overall, so encourage ESCoSA to consider the necessity of proposed IT investments and expected customer benefits in considering IT expenditure proposals

Return to Capital

Regulated Asset Base (RAB)

The Regulated Asset Base (RAB) is a crucial component for setting allowed revenue for any regulated, capital intensive utility. When coupled with the Weighted Average Cost of Capital (WACC) an annual return for the long-term capital investment of a utility is set:

Return to Capital = RAB x WACC

Part of the art of this aspect of regulation is to achieve equity in payments made for use to long term capital between current and future consumers. Striking this balance is important for SA Water and for ESCoSA in setting the allowed revenue for 2020-24 since it is a major component of SA Water revenue and must reflect fair and efficient costs for current and future consumers, sometimes for assets with a life of 50-60 years.

A sound valuation of the SA Water RAB has been the source of conjecture for some time which has prompted the SA Government to conduct an Independent Inquiry Water Pricing, ie the value of the SA Water RAB. This review commenced in 2018 and concluded in 2019 and was conducted by Lew Owens.

In responding to the Inquiry's "Balanced Bargain" penultimate report, the Uniting Communities submission summary included the following:

"In setting a base year for RAB valuation, the Inquiry says that "the data provided in the 08-09 TS which relate back to the year 2006-07 provide a reasonable basis for its proposed roll-forward approach commencing from 1 July 2006." Uniting Communities accepts this finding.

We then believe that the appropriate valuation of the RAB that is in the best interests of SA consumers is \$7150 million. It would be difficult for the SA Government to justify a RAB valuation that is higher than this value to be in the interests of consumers, in our opinion.

On the question of transition to a lower RAB valuation we suggest that a reasonable bargain with consumers would be for the transition to a lower RAB valuation to occur over the four years of the forthcoming regulatory period, to be fully in place by 2024."

Uniting Communities has been an active participant in the Review of calculation of SA Water's RAB. It is recognized that the Review is a separate process from the revenue determination for 2020-24 being undertaken by ESCoSA, but consider that there is like to be some overlap. We expect that details of this Review will be discussed in early 2020 and may well contribute to reductions in the bills of SA Water customers, from a lower RAB valuation. So we defer any further comment about the RAB base for now, anticipating greater discussion early in 2020 and before the final determination of the SA Water proposal for 2020-24 is made.

In our submission to the Owens’ Inquiry, we recognized the importance of smooth transition to any new RAB value and flagged that such transition would need to occur during the 2020-24 period. It is important that active engagement with consumer and other interests is undertaken to apply any outcomes of the Owens Inquiry.

Weighted Average Cost of Capital (WACC)

While the WACC is not a focus of the SA Water, “Our Plan” proposal, it is an important aspect of ESCoSA Guidance Notes for the RD2020 process, and does impact on SA Water revenue and ultimately prices paid by consumers. We highlight the global reality of low returns to capital, as expressed by returns on Government bonds, and other ‘secure’ financial instruments. This means that ‘headline’ values of WACC are lower now than they have been since well before the global financial crisis of a decade ago.

It is understood that the owners of regulated utilities are more anxious about WACC rates than they were when nominal returns were much higher than they are now, and tended to favour utility business owners over bill paying customers. In setting rates of return in the current circumstances, regulated business owners and regulators need to accept prevailing methods of calculating rates of return, where these arrangements have been in place for some time and are designed to give fair balance between return and cost of bills – suppliers and customers – over time. We are satisfied that the current methodology for calculating SA Water’s rate of return is sound, and fair over time.

Pricing

We understand that the structure of billing arrangements for individual customers will be a subsequent process to the Final Determination being made for aggregate revenue allowance, 2020-24, by ESCoSA. We look forward to active participation in these processes.

However, we flag a couple of concerns at this stage, based on information presented in appendix F of the SA Water “Our Plan”

In appendix F, Pricing, SA Water provides the following “indicative water bills” as part of table F3, this extract applying to residential customers.

Use \ cost, \$ nominal	2019-20	2020-21	2021-22	2022-23	2023-24
120kl	589	589	597	606	615
180kl	793	785	797	809	821
412kl	1585	1546	1568	1592	1615
637kl	2387	2316	2351	2385	2421

Figure 6 Source, SA Water Our Plan, appendix F, table F3

We have used this information to calculate price per litre of water for household consumers in the first and last year of the regulated period, for the 4 different use levels that SA Water have used. This gives the following nominal costs per litre for differing levels of water use:

Use \ cost, \$ \ nominal	2019-20 bill	2019-20 \$/litre	2023-24 bill	2023-24 \$/litre
120kl	\$589	\$4.91	\$615	\$5.12
180kl	\$793	\$4.40	\$821	\$4.56
412kl	\$1585	\$3.85	\$1592	\$3.86
637kl	\$2387	\$3.75	\$2421	\$3.80

Figure 7 Source, SA Water Our Plan, appendix F, table F3 plus additional calculations

This table of costs per litre raises a couple of concerns that will need to be carefully considered when SA Water develops its pricing approach to collect the regulated aggregate revenue.

Concerns from this analysis include:

- Lower use customers pay a higher 'unit cost' for water than higher use customers. We suggest that many renters are in the low to moderate use households and many poorer people are also likely to be in lower to moderate water use tenancies. So there is an equity question to be considered about the impact of higher unit costs being allocated to lower use households. As such the indicative prices for water are regressive.
- The water use of renters is not well understood and has been raised earlier in this submission as a topic for further consideration by SA Water. We surmise that lower income private sector renters are lower water use customers, but this hypothesis needs to be researched, tested and better understood.
- The unit cost for high use customers remains unchanged in nominal terms for the duration of the regulatory period a real reduction. The highest nominal increase in unit cost of water is for lowest water users at a rate of about 1% nominal increase per annum.

We encourage SA Water to seek to more equitably apply cost savings across its customer base with greater benefit going to lower water users than is indicated by their table from appendix F.

For reasons of equity, we continue to support charging for sewage based on property values. While we recognise that there is some community concern about this approach was to consider that it is relatively efficient, fair and responsible approach to charging for a critically important merit good.

Next Steps

Uniting Communities looks forward to contributing to the next stages of this regulatory process and to further engagement with SA Water, particularly about low income renters.