



Media Release

ESCOSA releases Draft SA Water Regulatory Determination 2020

4 March 2020

In a **(Draft Determination)** released today, the Essential Services Commission of South Australia (**ESCOSA**) has proposed an 18 percent (\$547 million) revenue reduction in SA Water's drinking water revenue and a 13 percent (\$164 million) cut in its sewerage revenue over the four-year period starting 1 July, while requiring the utility to at least maintain its current levels of customer service. Under the regulatory framework, SA Water sets its prices to comply with the Commission's determined revenue allowances.

The regulatory approach adopted by the Commission is consistent with that used in the two previous determinations (2013 and 2016).

The Commission said that a key driver of the reduced revenues is the dramatic changes in the economic environment over the past four years, where financing costs have fallen significantly. The Draft Determination passes through to customers the benefits of those lower financing costs that SA Water currently faces. As a result, the Commission has proposed lowering SA Water's allowed regulatory rate of return to 2.71 percent in 2020-21 from 4.53 percent in 2016-17.

SA Water had proposed to recover an extra \$456 million in capital expenditure and \$121 million in operating expenditure over the next four-year period (as compared to current expenditure levels), some of which the Commission has accepted. However, the Commission has also found that some of the proposals are neither justified nor consistent with customers' clearly expressed main priority, which is that prices should be kept as low as possible while maintaining current levels of service. The Draft Determination will instead allow \$190 million in additional capital expenditure and a decrease of \$115 million in operating expenditure over the four-year period from 1 July 2020.

The proposed revenue outcomes provide SA Water with sufficient revenue to fund efficient operations, finance prudent long-term investments and meet health, safety, environmental and customer service standards.

The Draft Determination's proposed reductions are indicative and based on current evidence and information, and may change for the Final Determination in light of submissions, new evidence and updated market information before they are applied from 1 July 2020 until 30 June 2024. Submissions on the Draft Determination are welcomed by 15 April 2020 and will be considered before the Final Determination is released in late May.

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The Essential Services Commission is an independent statutory authority with functions in a range of essential services including water, sewerage, electricity, gas, rail and maritime services, and also has a general advisory function on economic matters. For more information, visit www.escosa.sa.gov.au.

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