SUBMISSION

TO | **Essential Service Commission of SA**

TOPIC | **SA Water Regulatory Proposal, 2020-24 Draft Determination**

DATE | April 2020

CONTACT

Mark Henley

E | MarkH@unitingcommunities.org

P | [redacted]

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Executive Summary

In our response to the SA Water regulatory proposal early this year we considered a range of 'customer priorities' that had been presented in various engagements and consultations and concluded that the main priorities for this revenue proposal were:

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

Lower prices

Safe water and sewerage services

Reliable services

Environmental responsibility.

We continue to believe that these are the crucial customer priorities, in the order listed.

The Uniting Communities view is that the ESCoSA Draft Determination meets these priorities, we consequently support the Draft Determination as being appropriate as the final determination, particularly regarding the revenue allowance. We also make the following comments:

- Regarding possible changes to the retail Code
    - Re tenants: We are not certain about the impacts of ESCoSA's changed definition of "consumers" to replace "tenants" in the Water Industry Act. Probably part of the implication is the extent to which SA Water draws a distinction between customers and consumers, in practice.
    - Re payment difficulties and hardship: The decision of the Commission to postpone its response to payment difficulty and hardship provisions until the Water Industry Act review is completed, is supported.
    - Re Family Violence: at this stage, we disagree with the ESCoSA decision not to add specific provisions for customers experiencing family violence to the Code. We suggest that South Australia follow the decisions made by the Victorian Essential Services Commission and seek to include provisions, into the water industry code, that recognise and appropriately respond to the impact of family violence on many customers.
- Various Capex matters
    - The 340 0f 650 regional properties: welcome the Commission's decision to follow through with the SA government on this matter. We also support that *"the draft decision is to not include the $37.7 million proposed to upgrade non-potable water supply for 340 properties."*

- Regional and Metropolitan water quality: we opposed the proposed capital allocation in the revenue proposal for both water quality expenditures , not because there is no issue here, but because we were not convinced that the proposals provided adequate benefit to enough customers, for the cost proposed. The Commission's draft decision on both water quality proposals is supported.

- Opex considerations:
    - Labour Costs: While supporting the direction of the draft determination, we suggest that the question of labour costs will need to be reviewed prior to the final decision, to take into account the impacts of COVID-19, to the best extent that is possible and in line with income changes across the range of SA Water customers.
    - ZCEF: The Commission's decision is "*to remove all costs associated with program from regulated costs*" is supported.
    - IT: We support the ESCoSA comments in saying that an "*IT specific ex-post review … will begin in 2023. Further, at SAW RD24 the Commission will seek clarification on an efficient level of IT capital expenditure for SA Water by undertaking its own independent benchmarking of IT capital expenditure costs, using suitable comparator businesses with underlying cost structures similar to SA Water.*"
    - Productivity: The application of a continuing efficiency target of at least 0.5% per annum across capital and operating costs strongly supported.
- Pricing:
    - 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 revenue proposal to charge higher unit charges for lower use customers.
    - 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 we continue to consider that it is relatively efficient, fair and responsible approach to charging for a critically important merit good.

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 processed 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.

Context

This submission is presented at a time of inconceivable change that could not have been imagined when SA Water lodged their proposal. The uncertainty of impacts of the COVID19 virus are unknown at time of presenting this submission. In our response to the SA Water proposal in January 2020, we said

> *"there is 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."*

Our expectations are that financial stress summarised above will only increase for households, agricultural producers and businesses over the coming months, maybe years. It is consequently more important than ever that essential services are very affordable through the pandemic and recovery periods.

Draft Determination

The ESCoSA summary of the revenue allowance for the 2020-24 period is: *"This Draft Regulatory Determination proposes reductions to the total revenue that SA Water may recover during the four-year period commencing 1 July 2020, of 18 percent ($547 million) and 13 percent ($164 million) for drinking water and sewerage retail services respectively, as compared to the amounts determined for the current four-year period (2016-2020)."*

The following table from the Draft Determination summaraises the Commission's draft decisions

Draft drinking water and sewerage retail service revenues, compared to 2016-20 revenues and SA Water's proposal for 2020-24 (Present value, $Dec18 in millions)

	2016-20 Regulatory Determination	SA Water 2020-24 Proposal	2020-24 Draft Determination
Drinking water	3,035	3,047	2,488
Sewerage	1,269	1,323	1,105

Figure 1. Source EScoSA Draft determination

As part of our efforts to gauge the appropriateness of these reductions we note the following data from National performance report 2018–19: urban water utilities,[1] a water industry benchmarking report produced by the Bureau of Meteorology.

Typical residential bill: water supply and sewerage ($)

Major urban centre[a]	2014–15	2015–16	2016–17	2017–18	2018–19	Change from 2017–18 (%)
Adelaide	1,416	1,444	1,207	1,292	1,316	1.9
Canberra	1,172	1,194	1,177	1,188	1,141	-4.0
Darwin	1,999	1,983	1,861	1,850	1,862	0.6
Melbourne[b]	1,046	1,083	1,039	1,033	1,005	-2.7
Perth	1,427	1,444	1,436	1,489	1,547	3.9
South East Queensland[b]	1,397	1,461	1,459	1,424	1,430	0.4
Sydney	1,235	1,232	1,124	1,146	1,103	-3.8

Table notes

[a] The figures exclude bulk utilities as they do not supply to customers.

[b] Melbourne and South East Queensland figures are the weighted average of the retail utilities (i.e. P3/C2—Connected residential properties: water supply and P6/C6—Connected residential properties: sewerage).

Figure 2. Source: National performance report 2018–19: urban water utilities

Of relevance here is that over the past 5 years, South Australian customers have been paying 'mid-range' prices for water and sewerage services, but had the second highest price increase, behind Perth, from 2017-18 to 2018-19

[1] http://www.bom.gov.au/water/npr/docs/National_Performance_Report_2018-19_urban_water_utilities_updated.pdf

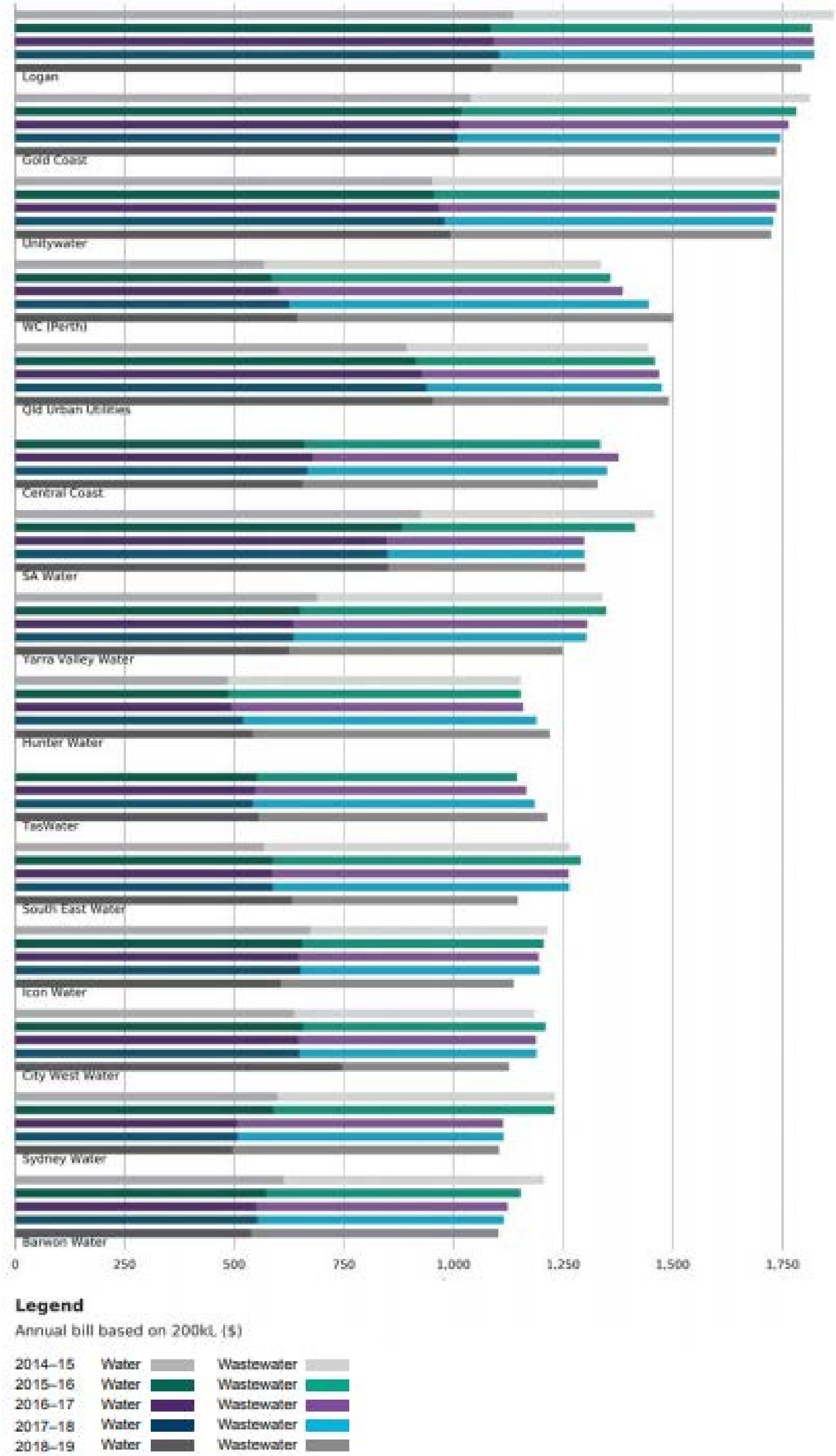

Figure 4.3 Annual bill based on 200 kL: water supply and sewerage ($)—Major utility group.

Figure 3. Source: National performance report 2018–19: urban water utilities

Again, using data from the National performance report 2018–19: urban water utilities, considering annual bills, on average, over the past 5 years SA Water has been the 6th most expensive of the 15 benchmarked water businesses. However, of concern against a priority of "lower prices" we note that this data shows that SA Water was the 4th most expensive in 2018-19.

This information suggests that SA Water bills are rising at a faster rate than the average across the benchmarked water and wastewater businesses.

Against this backdrop of rising recent prices for SA Customers, a reducing price path from a lower regulated revenue for the next period is responsible.

Forms of regulation

There are a couple of aspects of application of "the Code," raised by ESCoSA in the Draft Determination that we wish to highlight, specifically

- Tenants
- Payment difficulties and Hardship
- Family Violence

<u>Tenants</u>
ESCoSA in the Draft Determination says:
"The Commission has made a draft decision that the existing consumer protections contained in the Code remain appropriate for SAW RD20, subject to the following proposed variations:

  - o *Replace references to 'tenants' with references to 'consumers' in order to improve consistency with the WI Act and the regulations under that Act.*

rationale is that this is to improve consistency with the WI Act and regulations under that Act. This affects clause

- *2.3 (obligation to provide customer charter),*
- *clause 8.1 (concessions, rebates or grants), clause*
- *18.11 (historical billing data), and*
- *clause 26 (prohibitions on water service flow restrictions).*

The Code currently extends some provisions to 'tenants' because the WI Act definition of 'customer' is extended to include 'other consumers' in some prescribed circumstances (as detailed in Regulation 4 of the Water Industry Regulations 2012). These prescribed circumstances include dispute resolution, disconnections, and the industry ombudsman scheme. Clarifying that Code provisions are for 'consumers' rather than 'tenants' will also help avoid ambiguity. For example, the term 'tenants' likely excludes long-term house sitters and potentially could exclude other unique arrangements where people are living at residential premises.

In consultation on this Code review, several stakeholders have expressed the view that the current WI Act definition of 'customer', which is adopted by the Code, could usefully be extended to include other consumers, particularly tenants. The Commission has documented these issues and, where relevant, referred them to the DEW, which is reviewing the WI Act.61"

In our January 2020 submission we argued that private-sector renters were at a disadvantage with regard to their relationship with SA Water as very few have access to hardship programs, in reality, and have to wrangle the often difficult three way relationship with SA Water regarding the landlord as their customer while the tenant actually is responsible for paying the bill.

We are not certain about the impacts of ESCoSA's changed definition of "consumers" to replace "tenants" in the Water Industry Act. Probably part of the implication is the extent to which SA Water draws a distinction between customers and consumers, in practice.

We would appreciate the opportunity to further explore, with ESCoSA the implications of this proposed language change. The principle is that renters need to be regarded as the end consumer of SA Water services and have access to the services and supports that are available to home owning customers, we think that this is the intent of the language change, need to be sure. We suspect that there is still value in the Code identifying renters as consumers with the same rights and supports as any other consumer.

Payment Difficulties and Hardship

On the issue of access to hardship programs and dealing with supporting people with payment difficulties, Uniting Communities notes that the impacts of COVID19 virus will almost certainly meant that many more SA Water customers will face payment difficulties, this matter now becomes ever more prescient. IN the Draft Determination, SA Water says:

"Given that the South Australian Government is currently undertaking a review of the WI Act's payment difficulty and hardship provisions, and that the review may give rise to statutory amendments, the Commission will postpone its response to Code-related issues on those matters until that review is finalised.

Nevertheless, the Commission acknowledges the criticality to stakeholders of the Codes' payment difficulty and hardship provisions. A number of issues with those provisions have been raised and documented, including that:

- *the extent of payment difficulty and financial hardship amongst SA Water customers is unclear, making the extent of the issue and effectiveness of current provisions hard to assess*
- *current payment difficulty and hardship provisions exclude residential tenants, and the ambiguity in the WI Act on this matter*
- *early assistance of the type the Code requires when a customer faces initial payment difficulty, may not be readily accessible, and*
- *access to higher levels of assistance provided in SA Water's hardship program may be improved.*

The Commission has documented these issues, and, where relevant, referred them to the DEW, which is conducting the WI Act review."

We agree with the Commission about the criticality of appropriate access to payment difficulty and hardship provisions for customers who are struggling to pay for the essential services of potable water supply and sewerage services. They are important issues for the water industry act review, which we have raised along with the place of tenants in our submissions to the water industry act review. We also expect that the implication of COVID-19 virus impacts on the South Australian community will be that a higher number of people will experience hardship, with difficulty in paying their SA Water bills. At time of writing this submission a particular concern for Uniting Communities is the situation of people who are regarded as noncitizens who have been working but have lost their jobs as a result of the virus and are not eligible for Jobkeeper or Jobseeker (formerly new start) payments and therefore have no income. This group of people will need appropriate support to maintain access to essential water and sewerage services.

The decision of the Commission to postpone its response to payment difficulty and hardship provisions until the Water Industry Act review is completed, is supported.

Family Violence

ESCoSA says: *"The Commission has considered whether to add specific provisions for customers experiencing family violence to the Code. Noting the lack of a specific legislative mandate to make explicit family violence provisions for customers, which does exist interstate, the Commission has decided not to pursue these improvements through changes to the Code at this time. Under a specific legislative mandate, the Essential Services Commission of Victoria introduced family violence provisions into its Customer Service Codes for Urban and Rural Water Businesses in 2018.72 … SA Water has some practices that are consistent with the approach required in Victoria. For example, it recognises that family violence can be linked with financial hardship, and will refer relevant customers to family violence assistance services. It also has a policy of providing leave to employees affected by family violence. However, SA Water does not have an overarching family violence strategy, or provide specific training on how to respond to, or assist in relation to family violence. It does not employ some of the specific mechanisms used interstate (such as 'safety flags' to identify accounts where extra care handling private details may be required). These would be valuable and important improvements, which could be coordinated by adopting a family violence policy with similar features to those employed in Victoria. The Commission invites stakeholders to identify any Code provisions that present particular barriers to providing assistance to people experiencing family violence."*

It is appropriate that ESCoSA has raised the question of whether to add specific provisions for customers experiencing family violence into the code. Our response is to note the following summary data reported by the Australian Institutes of Health and Welfare in their 2019 report Family, Domestic and Sexual Violence in Australia[2], They report:

- one in six women (1.6 million people nationally) have experienced physical or sexual violence by a current or previous partner since the age of 15
- one in 16 men have experienced physical or sexual violence by current or previous partner
- one in four women and one in six men have experienced emotional abuse by current or previous partner since the age of 15
- one in five women and one in 20 men have experienced sexual violence since the age of 15

[2] https://www.aihw.gov.au/reports/domestic-violence/family-domestic-and-sexual-violence-in-australia-c/contents/table-of-contents

- one in six women and one in nine men were physically or sexually abused before the age of 15
- one into women have been sexually harassed since the age of 15

This is harrowing data and paints a very sad story about the widespread extent of family violence in Australia. While we accept that it is not the role of a regulated revenue decision for a water business to solve the tragedy of family violence, we strongly suggest that all members of the Australian community including businesses, can and should play a role in reducing the incidence of family violence.

Consequently, at this stage, we disagree with the ESCoSA decision not to add specific provisions for customers experiencing family violence to the Code. We suggest that South Australia follow the decisions made by the Victorian Essential Services Commission and seek to include provisions, into the water industry code, that recognise and appropriately respond to the impact of family violence on many customers. We recognize that ESCoSA has asked "*stakeholders to identify any Code provisions that present particular barriers to providing assistance to people experiencing family violence."* Instead, we think that the Code should be proactive in identifying the importance of responses to family violence. We would welcome the opportunity for further discussion.

Capital Expenditure

The ESCoSA draft decision for capital expenditure is: *"The draft decision is that the prudent and efficient amounts of capital expenditure to be included in the calculation of the revenue caps are as follows:*

- *$1,023.9 million ($Dec18) for drinking water retail services, which is 20 percent higher than spent in SAW RD16 and 17 percent lower than that proposed by SA Water in its RBP, and*
- *$447.7 million ($Dec18) for sewerage retail services, which is 20 percent lower than spent in SAW RD16 and 11 percent lower than that proposed by SA Water in its RBP. Draft decision."*

The following graph is taken from the draft determination and shows that the SA Water proposed capital expenditure is significantly higher than current levels of capex spending, with proposed spending in 2021 about $140- $160 million higher than projected actual spending in 2019-20. While the 'lumpy' nature of capital expenditure is recognised, this substantial leap in proposed revenue appears to be very high, particularly considering that the overall trend for proposed capital expenditure is rising still for the rest of the regulatory period.

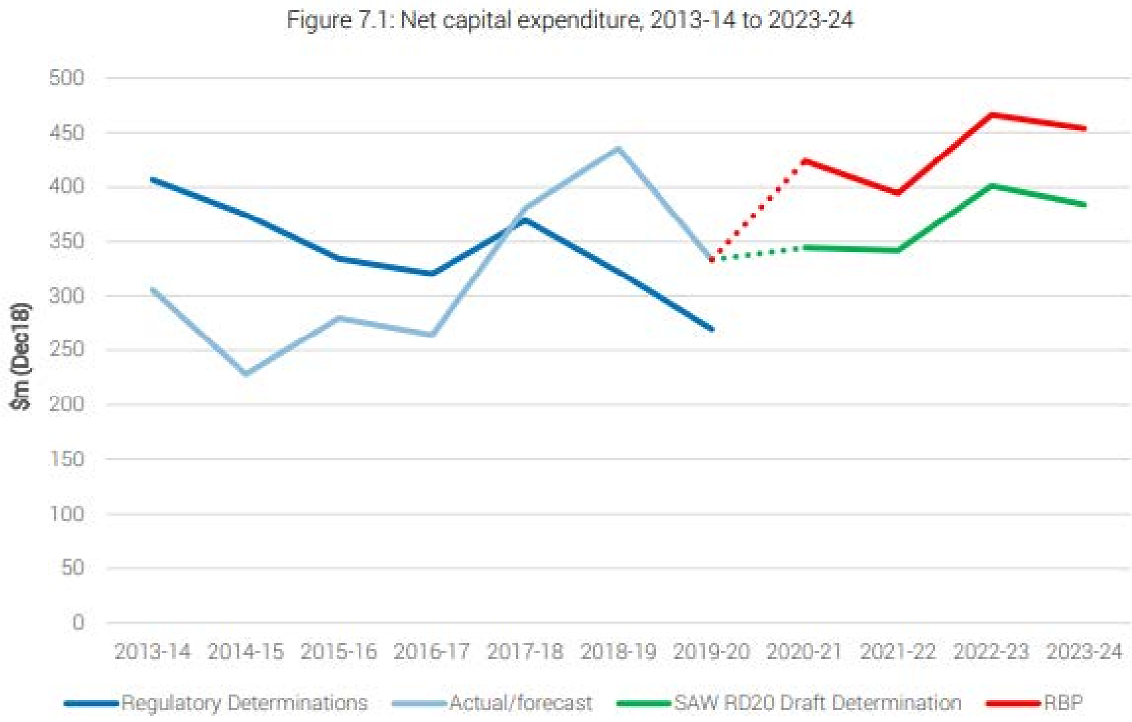

Figure 4. Source, ESCoSA Draft Determination.

The data provided in the table below is again from the Bureau of Meteorology's National Performance Report 2018–19: urban water utilities report. The table shows that SA Water recorded the highest increase in capital expenditure from 2017-18 to 2018-19. This rate of increase being significantly higher than all other major urban centres except for Sydney.

Table 2.8 Total capital expenditure: water supply and sewerage ($000s).

Major urban centre	2014–15	2015–16	2016–17	2017–18	2018–19	Change from 2017–18 (%)
Adelaide	162,520	192,486	275,753	213,276	281,841	32
Canberra	52,281	88,191	95,134	89,339	88,138	-1
Darwin[a]		51,160	23,047	46,248	33,482	-28
Melbourne[b]	733,023	766,411	820,565	890,817	970,422	9
Perth	375,768	309,692	450,828	480,897	461,199	-4
South East Queensland[b]	520,958	511,998	583,536	604,729	687,820	14
Sydney[b]	685,535	699,717	671,680	822,466	1,160,104	41

Figure 5. Source: National performance report 2018–19: urban water utilities

We are aware that the difference between the capital expenditure benchmark in SAW RD16 and the capital expenditure that SA Water is expected to incur in the SAW RD16 period is mainly driven by the construction of the Northern Adelaide Irrigation Scheme (NAIS). This project was not anticipated at the time of SAW RD16 and is forecast at $88.4 million of net capital expenditure by the end of SAW RD16. We support NAIS, but do not consider that it should be playing any role in increasing the base for capex expenditure.

The following chart from the National performance report shows that SA Water has had the second highest level of capital expenditure over the past four years, when compared to other Australian water authorities. It is recognised that actual expenditure over the last couple of years of the reporting period has been lower but still places SA Waters capital expenditure in the top five of its peers. This needs to be understood in the context of relatively low population growth in South Australia compared to some other jurisdictions where higher capital expenditure could be expected to cope with population growth.

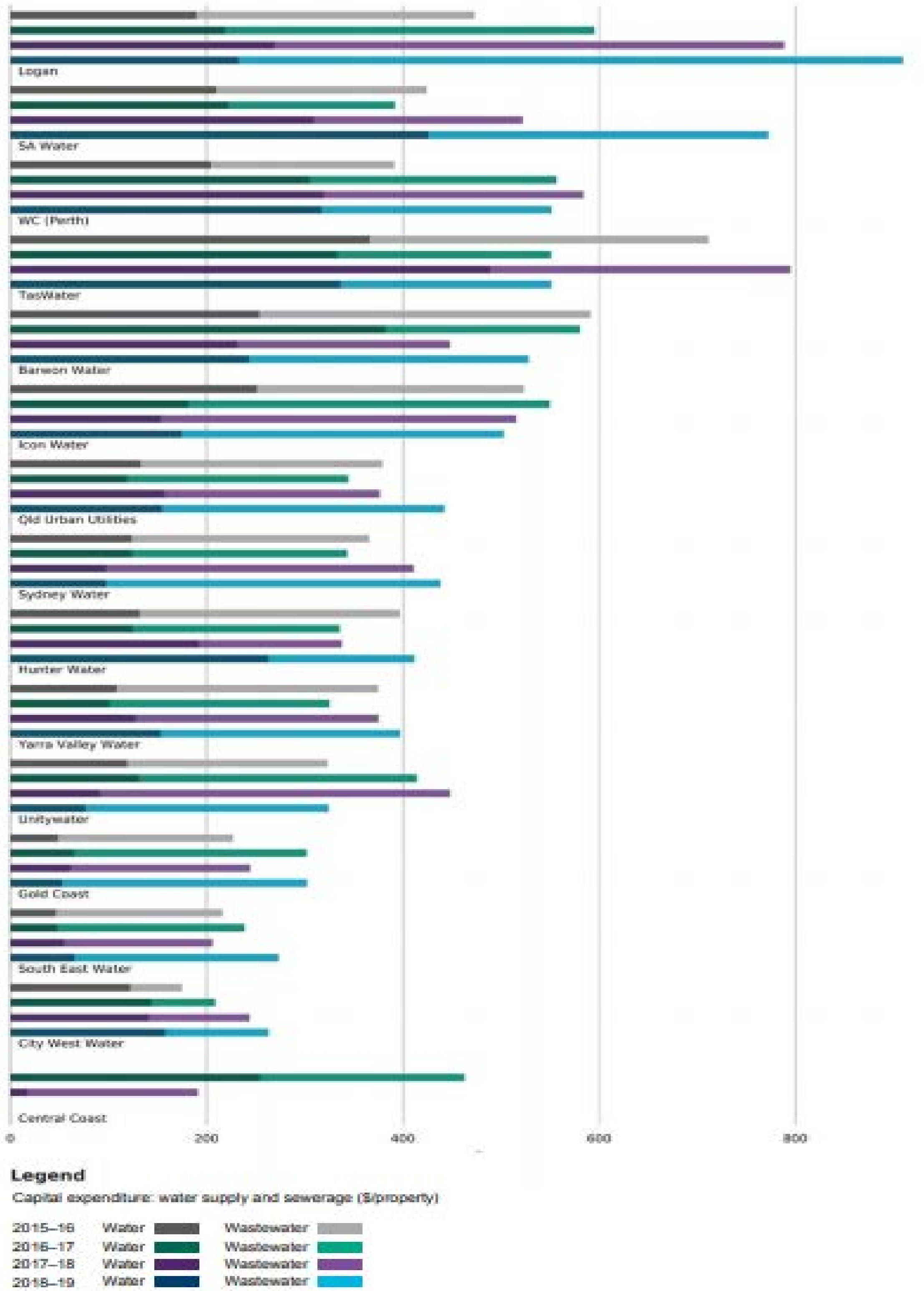

Figure 5.2 Capital expenditure: water supply and sewerage ($/property)—Major utility group.

Figure 6. Source, National performance report 2018–19: urban water utilities

This comparative data suggests that SA Water has had comparatively high capital expenditure over recent years which supports, in our view, the reduced allowance against the revenue proposal given by ESCoSA in the draft determination.

The following considers a couple of the expenditure areas that have been raised by ourselves and others in responding to the revenue proposal. This

<u>Upgrades to 340 of 650 regional properties</u>
ESCoSA writes that *"SA Water proposes to invest $37.7 million during SAW RD20 to provide potable water supplies to 340 properties across 19 systems that currently have a non-potable water supply. Seventeen of these systems are in the upper north of South Australia. The initial focus is on northern railway towns, with the remaining 310 properties to be addressed during SAW RD24. The Commission notes that, through its willingness to pay research, SA Water has established customer support for this program of work. However, there was broad opposition to this proposal from stakeholders, over issues of both cost, and wider public policy considerations. For example, concerns were raised by the CNC, and echoed by SACOSS, that the extent of SA Water's obligation to supply, and the broader matters of where and how potable water supplies are provided, and funded, are matters of South Australian Government policy that are likely to require wider consideration. The Commission agrees that these are matters of South Australian Government policy. Notwithstanding the mixed views of stakeholders on this program, in its current form, it proposes a partial solution that provides limited incremental benefits to a small number of customers at a very high cost per directly-benefitting customer.*

Therefore, the draft decision is to not include the $37.7 million proposed to upgrade non-potable water supply for 340 properties. The Commission will liaise, where appropriate, with the South Australian Government to help inform policy development regarding SA Water's obligation to supply, and where and how potable water supplies are provided and funded. If required, in order to be consistent with South Australian Government policy, the Commission will reconsider expenditure proposals for upgrading non-potable supplies during SAW RD20, using the contingent project review mechanism described in Chapter 4."

Uniting Communities responded to this particular aspect of the SA Water proposal by not supporting it. We have made media comment about this topic too. Our concern is that we did not believe that the SA Water proposal identified clear engagement with the affected customers about what their needs were, in terms of specific individual responses to the accepted general problem. We were not convinced that the high cost per customer was necessarily the most effective or efficient solution.

The issue raised by SA Water, is not in dispute, it is their response that is challenged. We strongly agree that the question of obligation to supply is a matter for the South Australia government, and welcome the Commission's decision to follow through with the SA government on this matter. We also support that *"the draft decision is to not include the $37.7 million proposed to upgrade non-potable water supply for 340 properties."*

Regional Water Quality
"The draft decision is to not allow the $24.8 million proposed for the regional water quality improvement program because SA Water has not established that it is prudent and, in its current form, the program appears to provide limited incremental benefits to a small number of customers at a very high cost per customer."

As with the situation of "340 of 650 regional properties," we opposed the proposed capital allocation in the revenue proposal for this expenditure, not because there is no issue here, but because we were not convinced that the proposal provided adequate benefit to enough customers, for the cost proposed. The Commission's draft decision is supported.

Metropolitan water quality
"The draft decision is that $80.8 million is a prudent and efficient amount to be included in SAW RD20 for the metropolitan water quality projects. This is $41.4 million less than the amount proposed by SA Water. The reflects the Commission's position that it is prudent to undertake the works over six years, rather than the four years that SA Water proposed."

This issue was also identified as being of concern in our response to the revenue proposal because we thought that, as with expenditure proposed for regional water quality, they were "nice to do" projects rather than urgent or important against the top priority for customers of lower prices.

The Commission's decision to reduce the requested revenue for this project, by about a third is reasonable. We note that the Commission's position is that the work still be undertaken, just over a longer time period. We ask that in framing the final decision the Commission explore the relative merits of improving water quality expenditure between metropolitan and regional locations, for the 2024-28 regulatory period, taking into account the sometimes poorer quality water in regional locations

Water and Wastewater Capex ratios
We understand that a somewhat higher proportion of total capital expenditure for the next revenue period will be spent on wastewater compared to potable water supply. In responding to the SA Water revenue proposal, we accepted the merits of increased relative expenditure on wastewater services. We understand that the Commission has also supported this direction.

We note from the National water industry report that over recent years, this trend has been evident across Australia, as shown in figure7, reinforcing the appropriateness of a relative increase in the ratio of Capex expenditure in favour of wastewater treatment.

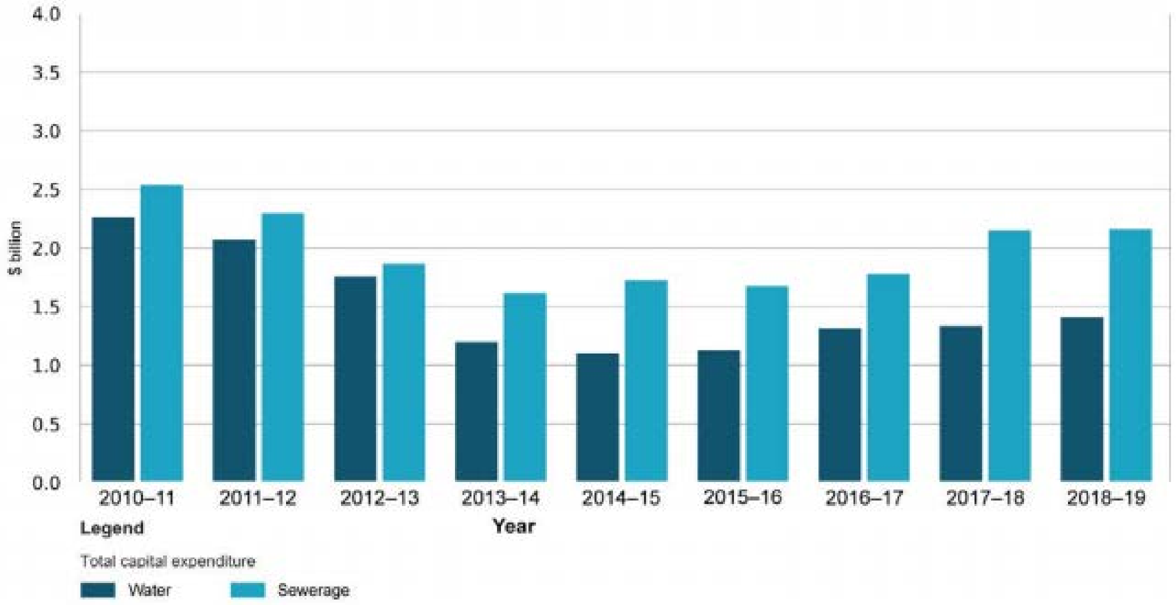

Figure 5.1 Total capital expenditure: water supply and sewerage ($ billion).[a]

Figure 7. Source: National performance report 2018–19: urban water utilities

Operating Expenditure

For operating costs, the Commission has made the following draft decision:
"The draft decision is that the prudent and efficient amounts of operating expenditure to be included in the calculation of the revenue caps are as follows:

- *$1,278 million ($Dec18) for drinking water retail services, which is 10 percent lower than spent in SAW RD16116 and 13 percent lower than that proposed by SA Water in its RBP, and*
- *$525 million ($Dec18) for sewerage retail services, which is the same as the amount spent in SAW RD16 and eight percent lower than that proposed by SA Water in its RBP."*

The national benchmarking data shows that over the past five years SA Water has been the seventh rated out of 15 businesses in terms of operating costs but was fourth highest for the most recent reported year 2018-19.

Table 2.7 Combined operating cost: water supply and sewerage ($/property).

Major urban centre[a]	2014–15	2015–16	2016–17	2017–18	2018–19	Change from 2017–18 (%)
Adelaide	591	607	563	556	584	5
Canberra[b]	815	966	1,015	1,012	985	-3
Darwin[c]		1,181	995	935	886	-5
Melbourne	971	1,019	932	905	913	1
Perth	618	629	608	610	547	-10
South East Queensland	1,110	1,142	1,147	1,131	1,167	3
Sydney[d]	709	725	696	675	720	7

Figure 8. Source, National performance report 2018–19: urban water utilities

Figure 8 above, shows that again SA Water has the second highest rate of increase in costs from 2017-18 to 2018-19

The graph below from the draft decision shows the significant rise in operating costs since 2015-16 with the revenue proposal proposing a trend increase for the next revenue proposal, after a modest reduction.

The RD20 draft determination of a reduction in operating costs, with the maintenance of this reduction in real terms, supported.

Figure 7.2: Operating expenditure, 2013-14 to 2023-24

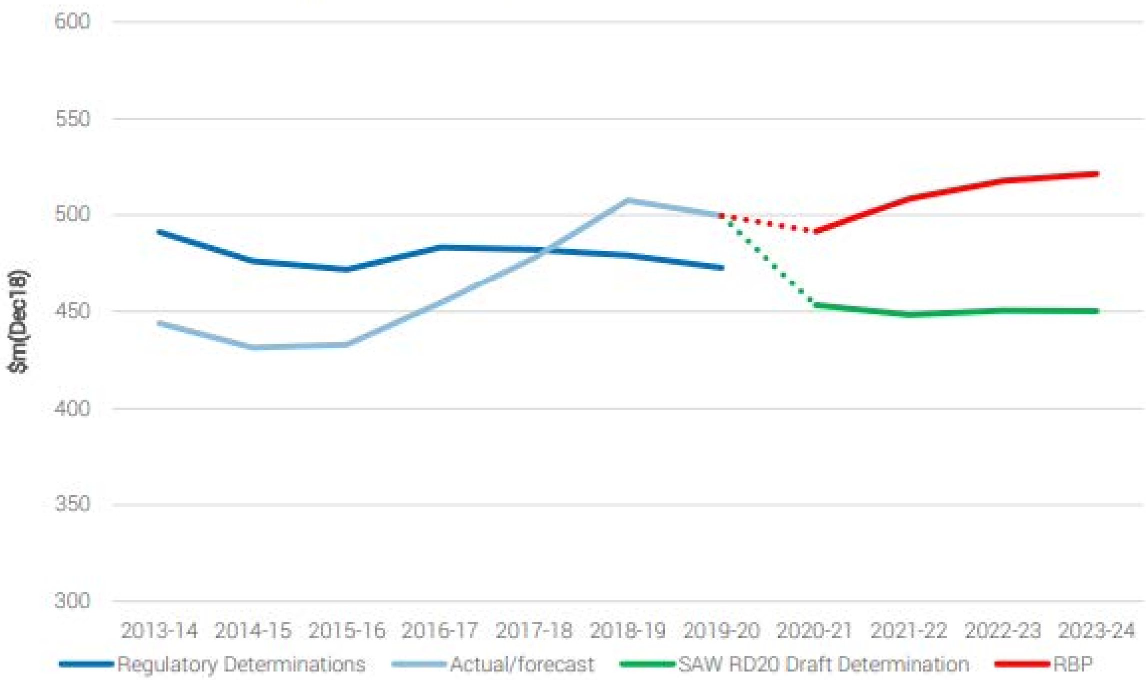

Figure 9. Source, ESCoSA Draft Determination

The Commission states that "*Costs related to labour (26 percent), the Allwater Metro Alliance Contract (20 percent) and electricity (13 percent) account for just over half of SA Water's operating expenditure. Labour costs are the single largest cost line of SA Water's operating expenditure at $122 million in 2018-19."* The following brief comments concerning these two major operating cost items.

<u>Labour costs</u>

The Commission reports *"Wage increases SA Water proposes an average additional $2.2 million per annum of operational expenditure to cover the costs of providing wage increases above the CPI for its staff. SA Water's proposal has two underlying drivers:*

- *In the renegotiation of its enterprise bargaining agreement, SA Water anticipates strong argument for an above CPI wage increase to compensate employees for the forecast labour productivity growth (demonstrated by the forecast gap between Wages Price Index (WPI) and CPI).*
- *Offering above CPI wage increases is key to attracting and retaining talent, improving internal Engagement and Culture indexes, and increasing labour productivity.*

The draft decision is that no additional operational expenditure is required to allow SA Water to manage its labour costs in SAW RD20."

In our response to the revenue proposal, Uniting Communities made the following comments about 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."*

We stand by those comments and note that the unforeseen circumstances of COVID-19 will reduce economic activity and many household incomes to levels well below what could have reasonably been projected when SA Water compiled the regulatory proposal. So while supporting the direction of the draft determination, we suggest that the question of labour costs will need to be reviewed prior to the final decision, to take into account the impacts of COVID-19, to the best extent that is possible.

ZCEF

The national benchmarking report provides the following table of standardised total net greenhouse emissions for the major Australian urban centres. SA Water, the dominant provider in Adelaide has the second highest rate of greenhouse gas emissions for most years of reporting period and the biggest increase from 2017-18 to 2018-19.

Table 2.6 Total net greenhouse gas emissions (net tonnes CO_2 equivalent per 1,000 properties).

Major urban centre	2014–15	2015–16	2016–17	2017–18	2018–19	Change from 2017–18 (%)
Adelaide	299	421	250	285	434	52
Canberra	257	255	242	268	363	35
Darwin	165	154	179	229	215	-6
Melbourne[a]	215	291	268	243	249	2
Perth	738	817	828	754	510	-32
South East Queensland[b d]				179[c]	200	12
Sydney	84	145	176	173	180	4

Figure 10. Source, National performance report 2018–19: urban water utilities

The benchmarking report says *"Adelaide's 52 per cent increase was a result of the extra demands caused by the drier summer and winter, which required more pumping than in previous periods."*

This data reinforces the importance of SA Water taking a proactive approach to its greenhouse gas emissions, with the ZCEF program being the centerpiece of its strategy to bring its operations to one with zero carbon emissions.

Uniting Communities supports the intent of the ZCEF program but raised concerns about the level of savings opex that ZCEF would bring to customers for the RD20 period and the level of risk that customers were wearing for the sensitive program

The Commission's decision is "*to remove all costs associated with program from regulated costs since "the primary benefit of the program is to earn revenue in the wholesale electricity market through exporting renewable energy rather than generating electricity in order to provide water and sewerage retail services."*

This approach appears to be reasonable as it removes risk to customers of the costs of the program and the vagaries of the future wholesale electricity market.

IT

information technology is an increasingly vexed topic for revenue determinations with IT applications and expenditure often embedded in a wide range of business activities.

We understand IT as being applied to 3 broad purposes:

- essential for ongoing business activity
- new expenditure or applications, invariably presented as increasing business efficiency
- Security, including from cyber-attack and complying with federal government legislation

With each of these purposes, it is crucial for customers that the most efficient IT expenditure of those that are undertaken and that there is benefit to customers.

We also observe that businesses are often beholden to a small number of global IT suppliers who regularly change versions of software, for example, and then phase out support for the current version. It is critical that despite the monopoly / oligopoly power of major IT suppliers that all expenditure options are canvassed, in this case by SA Water, still consider a range of options rather than just updating to the latest version, at a premium price.

It is also understood that assessing IT efficient and necessary IT expenditure is increasingly difficult task for regulators across Australia and internationally.

In considering IT expenditure the Commission said *"SA Water did not explore whether customers are willing to pay for IT projects. Further, it has not clearly identified the IT costs of delivering on some of its new service standards. … To address these issues, the Commission will require that SA Water improve its documentation of the outputs and outcomes expected from each IT capital expenditure project, and make that documentation available for an IT specific ex-post review which will begin in 2023. Further, at SAW RD24 the Commission will seek clarification on an efficient level of IT capital expenditure for SA Water by undertaking its own independent benchmarking of IT capital expenditure costs, using suitable comparator businesses with underlying cost structures similar to SA Water."*

These observations in the draft determination a sensible and the actions proposed by ESCoSA are supported.

Opex Efficiency

The Commission says *"The draft decision is that a continuing efficiency target of 0.5 percent per annum should be applied to SA Water's capital and operating expenditure across the SAW RD20 period. This is based on a conservative view of the reasonable range for productivity improvements using multi-factor productivity (MFP) estimates for the Australian economy, with an expectation that SA Water should be able to become more efficient at least as quickly as the Australian economy has achieved in recent years."*

The application of a continuing efficiency target of at least 0.5% per annum across capital and operating costs strongly supported.

Rate of Return

While there are many aspects to determining an effective rate of return, most of which we have canvassed in the past, the only comment we make on this topic is to particularly support the Commission's proposal to introduce an annual update methodology for the rate of return. We think this is reasonable given current global financial circumstances where any sort of longer term projection about like you or even target rates of return is difficult

Pricing

In our response to the SA Water revenue proposal, summarised our concerns as follows:

- *"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 we continue to consider that it is relatively efficient, fair and responsible approach to charging for a critically important merit good."

We restate these concerns about pricing, recognising that the process for pricing follows the final revenue determination, but we consider it important that steps are being taken as soon as practical for adequate consultation to occur on appropriate pricing, given impacts of COVID-19 and our interests in seeing a fair and equitable pricing structure.

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 and pricing arrangements.

We would also appreciate the opportunity to discuss aspects of consumer protection and potential changes to the retail code with ESCoSA

Note that Uniting Communities made a submission to the SA Water submission, which was lodged after the due date and so not listed in the list on page 15 of the Draft Determination Statement of Reasons. We did however make a submission that is referenced in the draft determination documentation