



Media Release

FINAL REGULATORY DETERMINATION FOR SA WATER RELEASED

11 June 2020

Water users will benefit from the Essential Services Commission of South Australia's reduction of SA Water's drinking water and sewerage revenue allowances by 16 per cent (\$494 million) and four per cent (\$54 million) respectively over the four years from 1 July. While the Commission does not set prices, State regulations mean SA Water must set its prices to comply with the Commission's revenue allowances.

The reductions, set out in a final regulatory determination released today, reflect the utility's lower financing costs while still allowing it to deliver drinking water and sewerage retail services at the quality and reliability levels customers value for the lowest sustainable long-term cost to them.

The determination recognises the dramatic changes in the economy since 2016, notably the significant reductions in official interest rates and the impacts of COVID-19, and passes on to customers the benefits of the resulting lower financing costs that SA Water faces. This has resulted in a lowering of SA Water's allowed regulatory rate of return from 4.53 per cent in 2016-17 to 2.96 per cent in 2020-21 (post-tax, real).

The Commission has reviewed the levels of capital and operating expenditure required for SA Water to run its operations efficiently and to maintain at least current levels of customer service over the next four years. As compared to the current determination, the new determination allows an increase of \$362 million in capital expenditure and an increase of \$33 million in operating expenditure, noting that this is lower than the amounts proposed by SA Water (an extra \$471 million and \$121 million in capital and operating expenditure respectively). The reductions are consistent with stakeholders' submissions that some of the expenditure proposed by SA Water was neither justified nor consistent with customers' priority that prices should be kept as low as possible while maintaining current levels of service.

The determination also takes account of the State Government's reduction in the value of SA Water's regulated asset base for drinking water assets from \$7.77 to \$7.25 billion (at 1 July 2013, in December 2012 dollars).

On the Commission's analysis, the revenue outcomes will provide SA Water with sufficient revenue to fund efficient operations, finance prudent investments on a long-term basis and meet the health, safety, environmental and customer service standards that will apply to SA Water over the coming four years.

The Commission is aware that the determination has been made at a time when there is uncertainty about the extent to which the COVID-19 pandemic may impact SA Water's costs. The determination has taken potential COVID-19 impacts into consideration in determining SA Water's regulatory rate of return (by assuming a longer-term return to the Reserve Bank of Australia's two to three percent inflation target band) and includes a mechanism to accommodate any material new COVID-19 costs in the 2024-2028 regulatory period.

The Commission thanks those who made public and stakeholder submissions during the review process, all of which were carefully considered and have provided valuable information and insights for the determination.

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