



Draft Regulatory Determination relating to the drinking water services provided by Robusto Investments Pty Ltd at Mount Compass

Consultation on the Draft Regulatory Determination

12th & 14th January 2021

Protection of the long term interests of South Australian consumers with respect to the price, quality and reliability of essential services

- ▶ What is our role in relation to drinking water?
- ▶ What is a draft determination?
- ▶ Why can the price differ from SA Water's?
- ▶ Why is this determination needed?
- ▶ What is the actual draft determination?
- ▶ What might it mean for bills and prices?
- ▶ What happens now?

What is our role in relation to drinking water?



Legislative framework

Defines what ESCOSA can and cannot do

Licensing

Pricing/Revenues

What is our role in relation to drinking water?



Commission's primary objective

Protect long-term interests of consumers with respect to price, quality and reliability

General description of regulatory regimes

Large water retailers – SA Water

Commission sets a revenue cap based on efficient costs, it does not set SA Water's prices.

Commission sets service standards and consumer protections including reporting obligations.

Minor and intermediate water retailers

Retailers have responsibility for setting their own prices, but those prices must be in line with efficient costs.

Retailers must adhere to regulations, reporting and consumer protections outlined in the Retail Code for minor and intermediate retailers.

Broader context

South Australian Government develops and implements public policy in relation to:

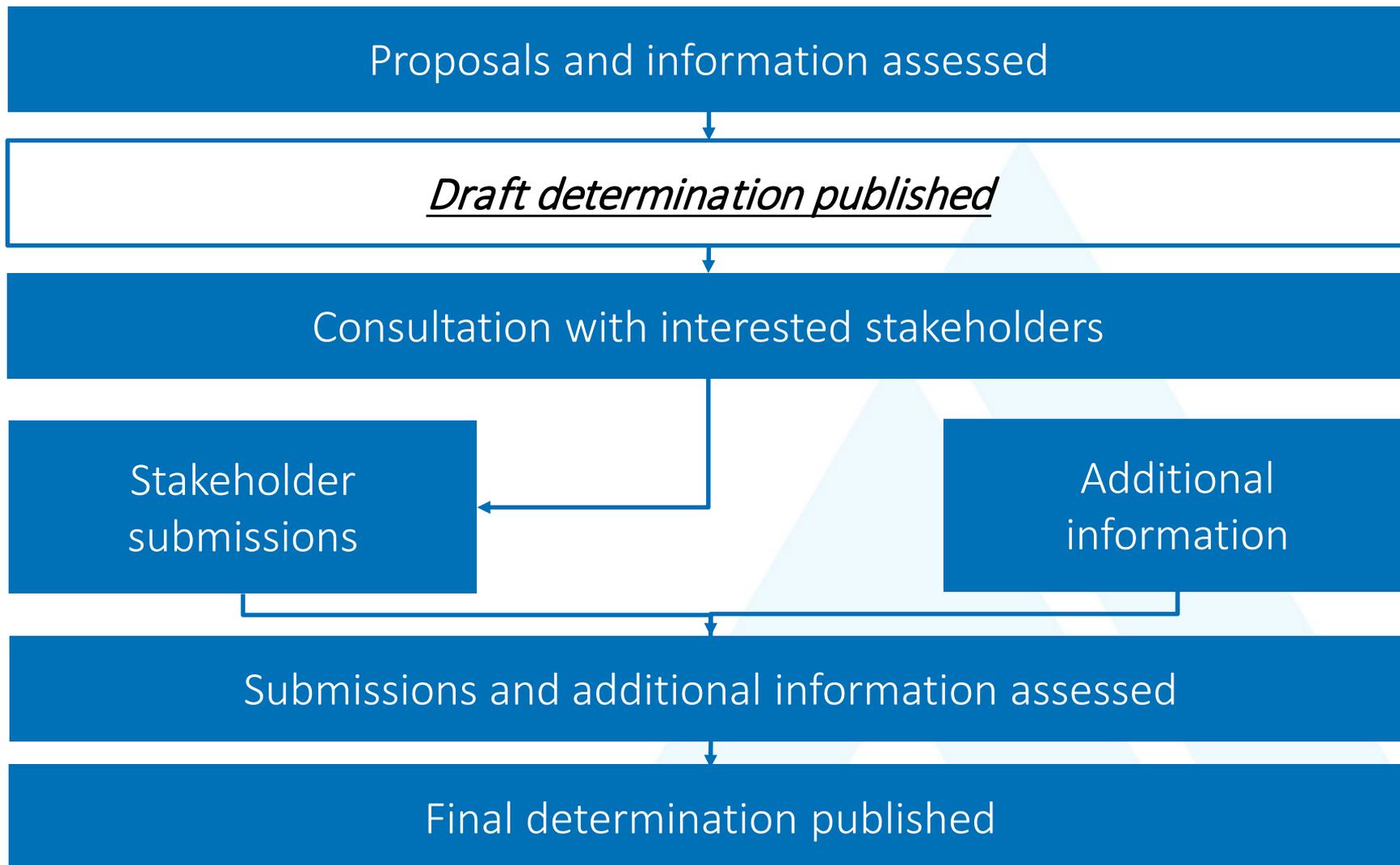
Health

Environment

Technical standards of water supply and safety

Also, as SA Water's owner, it can direct SA Water

What is a draft determination?



Why can the price differ from SA Water's?



SA Water Corporation Act
1994

Public Corporations Act
1993

Allows for Minister of Environment and Water to direct SA Water

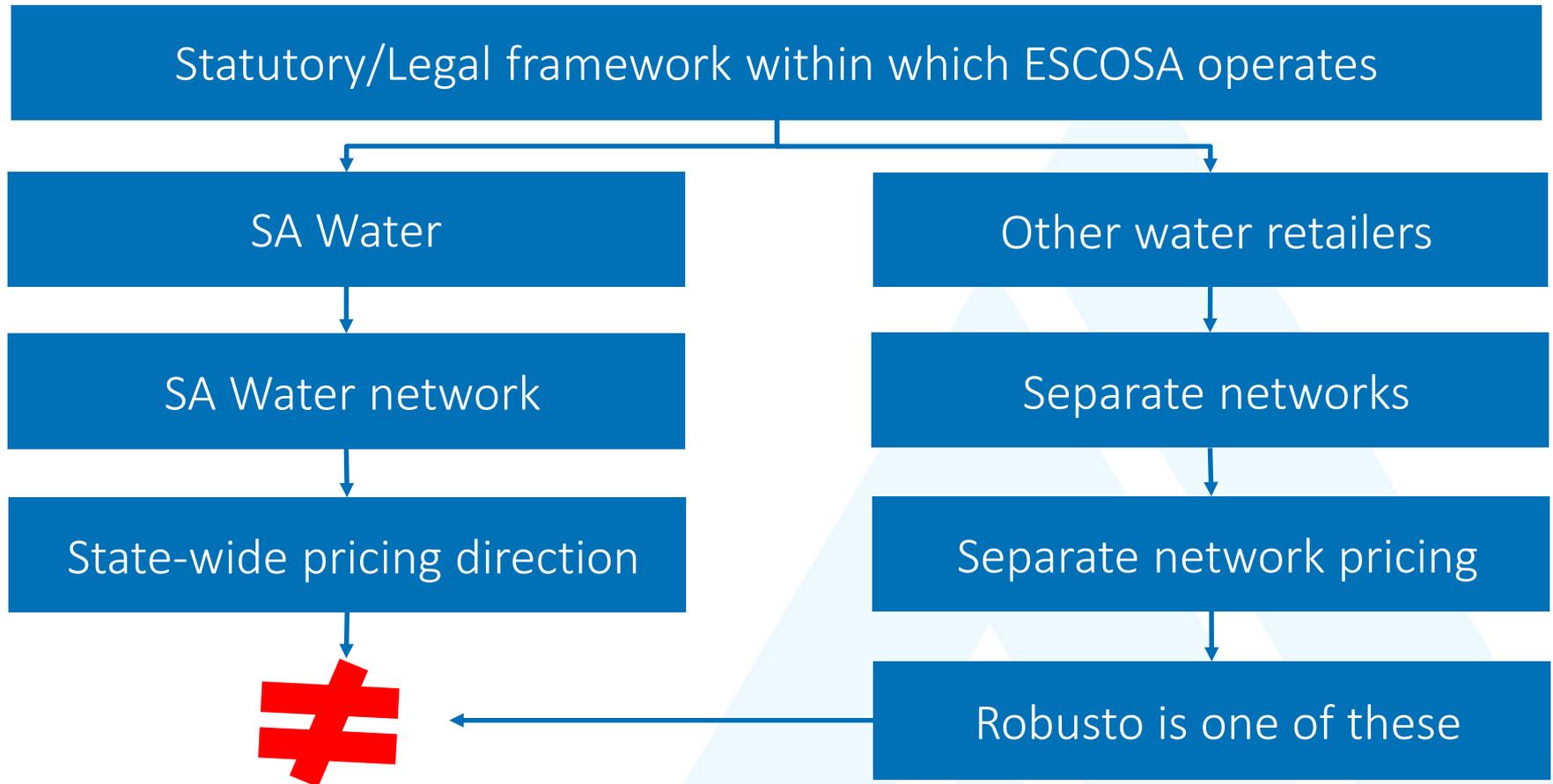
SA Water has been directed to adopt state-wide pricing for its customers
(The South Australian Government Gazette, 11 June 2020, No.50, p.3379)

The state-wide pricing direction only applies for SA Water customers

Why can the price differ from SA Water's?



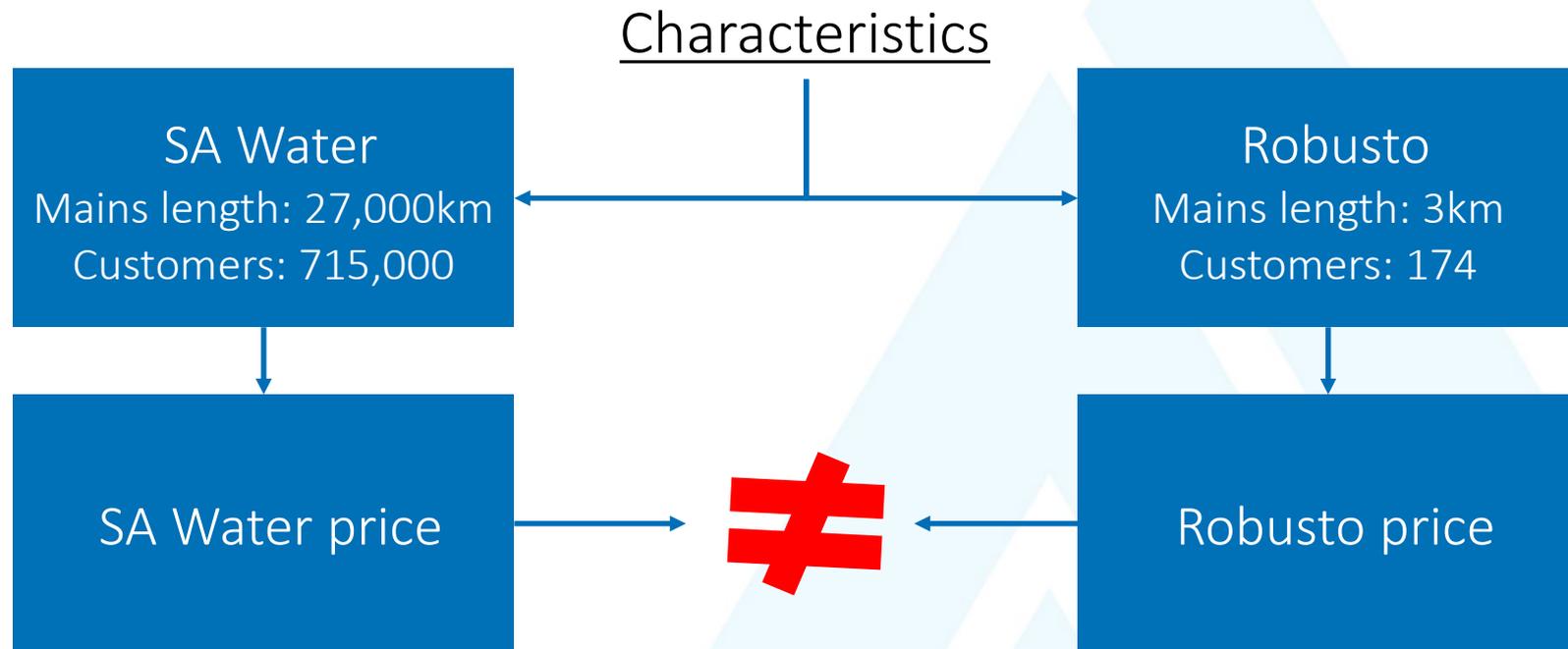
Statutory and policy perspective



Why can the price differ from SA Water's?

Network characteristics perspective

Each water network has its own costs of supplying drinking water reflecting its own set of characteristics and circumstances



Why is this determination needed?



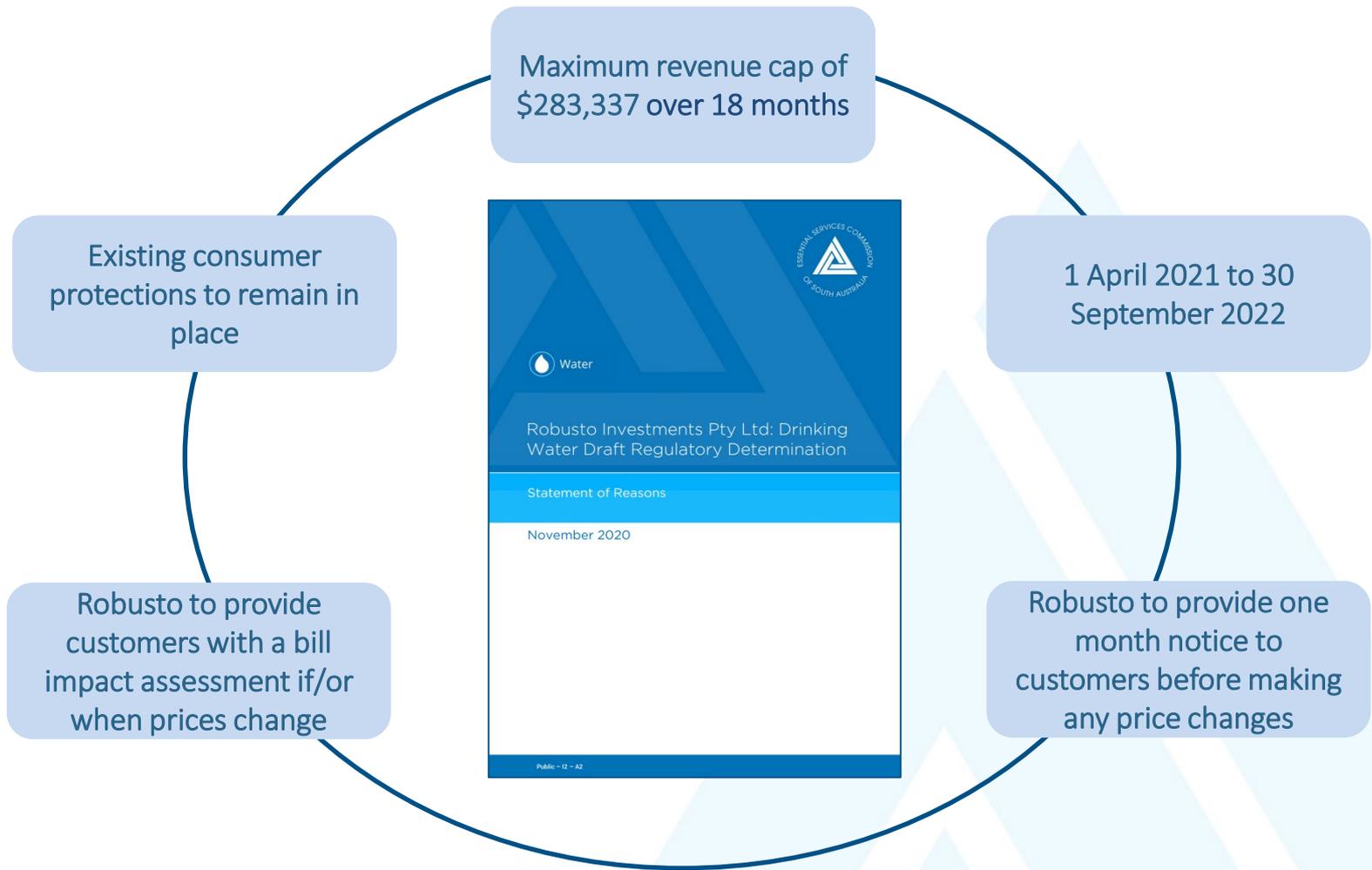
Robusto submitted four pricing proposals between March 2017 and September 2019

This iterative process did not reach a position that complied with the general minor and intermediate retailers price determination

In 2020, the Commission chose to make a specific determination for Robusto.

This is the first time a separate determination has been made for a small and intermediate retailer

What is the actual draft determination?



What is the actual draft determination?



Internationally used standard method

How did we come up with the draft determination maximum revenue cap?



Operating costs



Depreciation ('Wear & Tear')



Return on investment



Tax allowance



Maximum allowable revenue

What is the actual draft determination?



<i>December 2018 prices</i>	Based upon Robusto's submissions	Draft determination
Operating costs	\$365,540	\$178,898
+		
Depreciation	\$132,450	\$37,206
+		
Return on investment	\$202,500	\$64,649
+		
Tax allowance	\$0	\$2,584
+		
Amortised losses	\$145,585	\$0
=		
Allowable revenue	\$846,075	\$283,337

What might it mean for bills and prices?



Annual average bills:

Current annual average bill estimate in region of \$900

	Based upon Robusto's submissions	Draft determination
Allowable revenue	\$846,075	\$283,337
Customer numbers	172	174
Average annual bill (December 2018 prices)	\$3,279 (phased implementation)	\$1,086
Inflation adjusted (Estimated prices of the day)	\$3,334 (phased implementation)	\$1,103

What might it mean for bills and prices?



Pricing:

Robusto **cannot** recover more than the maximum revenue cap via its prices

But as the draft determination stands, Robusto has pricing flexibility

- Robusto can set its own prices
 - prices can have 'standing' and 'usage' charges
 - 'usage' charges can be tiered
 - price differentiation across customer types is possible

What happens now?



Submissions by 15 January 2021

Commission considers the evidence provided from stakeholders

Final Determination March 2021

Revenue cap expected to take effect 1 April 2021 to 30 September 2022

Gather data for next determination to take effect 1 October 2022, if needed

Further information



The Draft Regulatory Determination can be found on Commission's website:

www.escosa.sa.gov.au

Submissions can be sent to:

escosa@escosa.sa.gov.au

Contact officer:

Mark Caputo, Manager Economics, Consumer Protection and Pricing

Question and answer

