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Dear Mr Cheroux

**Re: Submission on Guidance Papers for the SA Water Regulatory Determination 2020**

Thank you for your letter of 6 November 2018, providing SA Water's submission to the Commission's initial Guidance Papers for SA Water Regulatory Determination 2020 (SAW RD20).

The primary issue raised in the submission concerns the non-binding revenue range presented in Guidance Paper No. 2. SA Water has suggested that the Commission's non-binding range does not accurately reflect the likely range of revenue outcomes for the SAW RD20 period, and goes on to put the view that the range provided is unrealistic for several reasons. Those include:

- actual expenditure requirements for the period will need to reflect customer expectations around service levels
- movements may arise in the various parameters required for setting the rate of return
- those matters may have impacts on SA Water's financial viability, and
- there may be a difference between changes in the overall revenue requirements and the translation of these changes into the prices customers ultimately pay, which the submission recognises is a matter for government policy.

The submission also sets out what SA Water sees as other plausible scenarios that could eventuate when different assumptions are used.

The Commission has reviewed those matters and notes that, if they were to be given effect, the Commission would need to forecast now the potential outcomes that might emerge from the consultative and engagement process that SA Water will undertake over the coming months during SAW RD20. As we note clearly in Guidance Paper 2, this is not the purpose of the Guidance Papers nor of the non-binding revenue range – they do not proceed on that basis.

In that light, the Commission firmly agrees that it is important that the Guidance Papers do not prejudge the potential outcomes of the SAW RD20 process. For this reason, the non-binding revenue range presented in Guidance Paper No. 2 is not intended to, and does not, represent the potential final outcome of the determination process. Rather, it represents the starting point – not the end goal – for the review process, based on known costs and existing regulatory methodologies. The discussion of the non-binding revenue range in Guidance Paper No. 2 is clear and express on that point.

It follows that it would not be appropriate for the Guidance Papers to speculate on the potential outcomes of SA Water's planning process, the Negotiation Forum process, the broader public consultation and engagement process and the ultimate outcomes of SAW RD20 in relation to the various matters raised in the submission (such as customer expectations around service levels and rate of return parameters). It would also not be appropriate for the Guidance Papers to speculate on how SAW RD20 might impact on the financial position of SA Water, nor discuss possible price impacts on customers arising from the determination. The Guidance Papers therefore do not speculate on those matters.

As we have previously explained, the Commission has included the non-binding revenue estimate in Guidance Paper No. 2 to provide transparency to stakeholders about the starting point for the SAW RD20 process, not the potential end point. It clearly states that the Commission expects that estimate will change through a process whereby proposals and options raised are justified and accepted (or not) by stakeholders and thereafter by the Commission (following further public consultation). The Commission's final decision will be informed by the full range of issues raised by stakeholders throughout the review process, and will clearly set out the reasons for its decision.

In deciding to publish the non-binding revenue range, the Commission considered submissions to the Commission's draft Framework and Approach paper for SAW RD20. In particular, it considered submissions from the South Australian Council of Social Service, which argued that consumer engagement on potential price-service packages should be predicated on early disclosure of minimum prices. That submission, which is available on the Commission's website at <https://www.escosa.sa.gov.au/ArticleDocuments/1171/20180216-Water-SAWRD2020-FA-Draft-Submission-SACOSS.pdf.aspx?Embed=Y> (refer page 2), commented that:

*It is difficult to see in the absence of consumers having clear information about the minimum prices at which SA Water is prepared to offer various price-service packages, how the consumer engagement process can be as robust as possible or fully reflect customers' preferences and price-service trade-offs.*

The Commission agrees with SACOSS that stakeholder engagement during SAW RD20 will be better informed by the early disclosure of the starting point of SA Water's revenues (not prices, which are not the subject of the determination). While the Commission cannot comment on SA Water's willingness to offer under any future regulatory plans (for the reasons discussed above), it can comment on the impacts of "rolling forward" the existing determination for known cost changes, which provides an appropriate starting point for any future debates about cost or methodological changes that might apply under SAW RD20.

I note that staff of the Commission and SA Water have worked cooperatively in developing the non-binding revenue range and the range published by the Commission aligns with both organisations' calculations. I would like to thank SA Water for that input.

The Commission acknowledges and appreciates SA Water's support in developing a framework for SAW RD20 that gives effect to our collective objective of promoting customers' long-term interests. The Commission will continue to work constructively with SA Water during SAW RD20 to realise that objective.

Yours sincerely



Adam Wilson  
Chief Executive Officer