

1 November 2019

Adam Wilson
Chief Executive Officer
Essential Services Commission of South Australia
GPO Box 2605
ADELAIDE SA 5001

Dear Adam

Submission on Guidance Paper 8: Treatment of capital expenditure

SA Water wishes to make a submission to ESCOSA in response to the release of the *Guidance Paper 8: Treatment of capital expenditure - addressing uncertainty*, for the 2020 Regulatory Determination process.

SA Water welcomes the release of the Guidance Paper and, to the extent that information has been provided, the proposed approach to addressing uncertainty as part of the determination process. The proposed approach, if effectively implemented, can provide benefit for customers in terms of incentivising efficient investment.

There are areas of the guidance paper that would benefit from further consideration and clarification and these are discussed below:

- 'Intra-period review mechanism' – clarification as to how this would work in practice.
- The role of public consultation and stakeholder involvement – the level of engagement intended, the role of customers and stakeholders in this process, and who will run this process.
- The approach seems to be limited to capital expenditure but to be fully effective it should also consider operating expenditure because the two are linked.
- The proposed approach is for an adjustment to the revenue allowance to pass on additional costs (or savings) to customers during the regulatory period. To pass these on, customer prices would need to fluctuate within the regulatory period. We are aware customers prefer price stability to inform their personal and business budgets. We are concerned that this would result in price instability and we suggest that the process should allow for flexibility to smooth out potential price impacts rather than immediately pass them on to customers.
- Clarification is sought regarding the criteria for a trigger event. For example, is it based upon the type of event, cost of the initiative, or potential impact on price?
- The approach requires SA Water to submit a list of 'contingent projects' at the start of the regulatory period. However, this inevitably contradicts the nature of the unforeseeable projects. We seek clarification as to how this will be addressed.

In relation to the costs and benefits of the Zero Cost Energy Future (ZCEF) project, we can confirm that SA Water has considered the factors referenced in the Guidance Paper and will only proceed with each project where the benefits are greater than the costs and is in the best interests of customers.

An element not addressed in the Guidance Paper is the incentive for SA Water to proceed with initiatives similar in nature to ZCEF. The guidance paper notes the risk that the Commission may, in 2024, deem the costs of such projects as not prudent or efficient and SA Water would not receive the ongoing cost recovery to pay back the investment. This does not seem to be a balanced approach as any saving would be passed on to customers and any risk would be borne by SA Water and its owner, the people of South Australia. We are seeking a more balanced approach that would provide a greater certainty of payback on investments, and a greater incentive for us to pursue these on behalf of customers.

We would welcome the opportunity to work with ESCOSA to refine the guidance on the treatment of capital expenditure.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Mark Gobbie', with a long, sweeping horizontal line extending to the right.

Mark Gobbie
Acting Chief Executive