



Water

Minor and Intermediate Retailers Regulatory Performance Report

2013-14

October 2015

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Glossary of Terms

TERM	DESCRIPTION
2013-2017 Price Determination	2013-2017 Minor and Intermediate Retailers Price Determination
Act	Water Industry Act 2012
Commission	Essential Services Commission
CWMS	Community Wastewater Management System
Minister's hardship policy	Residential Customer Hardship Policy for Minor and Intermediate retailers
Ombudsman	Energy & Water Ombudsman SA
Water Guideline No. 1	Water Industry Guideline 1 – Compliance Systems and Reporting
Water Retail Code	Water Retail Code for Minor and Intermediate Retailers

1 Executive summary

This is the Essential Services Commission's (**Commission**) report on regulatory performance outcomes for the period 1 July 2013 to 30 June 2014 for water and sewerage service retailers with 50,000 or fewer connections, as licensed under the *Water Industry Act 2012* (**Act**).

The Act applies to all water and sewerage retailing operations, with three retail licence classes:

- ▶ Major: more than 50,000 customers (currently only SA Water)
- ▶ Intermediate: between 500 and 50,000 customers (37 licences)
- ▶ Minor: fewer than 500 customers (26 licences)

Collectively, the retailers licensed under the Act provide drinking water services to 750,000 properties (servicing 1.6 million people) and sewerage services to 675,000 properties (1.46 million people) in South Australia. SA Water is the largest retailer, servicing over 99 per cent of total drinking water connections and 87 per cent of total sewerage connections. The other licences are held by councils (56) and private businesses (seven).

The focus of this 2013-14 report is on residential customers. Over time, the Commission will expand reporting to include information on non-residential customers. A separate report on SA Water can also be found on the Commission's website.

Minor and Intermediate Retailers are at different stages of implementing the consumer protection and pricing framework, required by the Water Industry Act 2012, Retail Licences, Water Retail Code for Minor and Intermediate Retailers (**Water Retail Code**) and 2013-2017 Minor and Intermediate Retailers Price Determination (**2013-2017 Price Determination**).

The Commission has noted the transitional nature of the initial four-year regulatory period under that consumer protection and pricing framework, acknowledging that, while some of its aspects likely reflect current practices, it is also likely that new policies, procedures and processes will be required. It further noted that its initial focus would be on introducing greater transparency around retailers' practices and understanding existing processes.

The key outcomes and findings in the sector in 2013-14 were:

- ▶ the scale and scope of water and sewerage services offered by Minor and Intermediate Retailers varies considerably
- ▶ approximately 6000 customers are supplied drinking water by Minor and Intermediate Retailers. In 2013-14 estimated water bills ranged between \$604 and \$1272
- ▶ approximately 85,000 customers are supplied a sewerage service by Minor and Intermediate Retailers. In 2013-14 estimated sewerage service bills ranged between \$180 and \$796
- ▶ 58 per cent of Minor and Intermediate Retailers reported that they set prices to recover the full costs of service provision.

2 Background

The Act, which commenced on 1 July 2012, establishes the regulatory framework for the water and sewerage service industry covering economic regulation, technical regulation, water planning and customer complaint handling. The Act sets out the Commission's regulatory functions, which include industry licensing, consumer protection and retail pricing.

The Commission's primary objective is to protect the long-term interests of South Australian consumers with respect to price, quality and reliability of essential services. The Commission administers a principles-based regulatory framework in a way that best protects consumers while minimising compliance costs for business.

3 Regulatory approach

The Commission's regulatory approach aims to provide consumers, regulated businesses and the broader community with regulatory stability and certainty over time. It aims to be efficient, effective and to balance the objectives of the *Essential Services Commission Act 2002*.

The regulatory regime is twofold: a Price Determination which guides the cost of water and sewerage retail services; and a consumer protection framework (including service standards) which sets minimum levels of service. In implementing the regime the Commission:

- ▶ seeks sustainable prices, rather than the lowest short-term prices possible, to ensure that regulated businesses have sufficient funds to invest and operate to ensure continuity in the supply of essential services
- ▶ establishes consumer protection frameworks to promote the delivery of both service levels valued by consumers and efficient prices
- ▶ keeps regulated businesses accountable by monitoring and reporting on service standards and regulatory requirements.

To undertake its role, the Commission has set out regulatory obligations for Minor and Intermediate Retailers in three documents:

- ▶ Water Industry Retail Licence
- ▶ The 2013-2017 Price Determination, which sets out that a combination of pricing principles and a price monitoring framework will be applied to retailers for the four-year period 1 July 2013 to 30 June 2017
- ▶ The Water Retail Code, which sets out the behavioural standards and requirements retailers must comply with when dealing with their customers.

For Minor and Intermediate Retailers, the Commission focuses on:

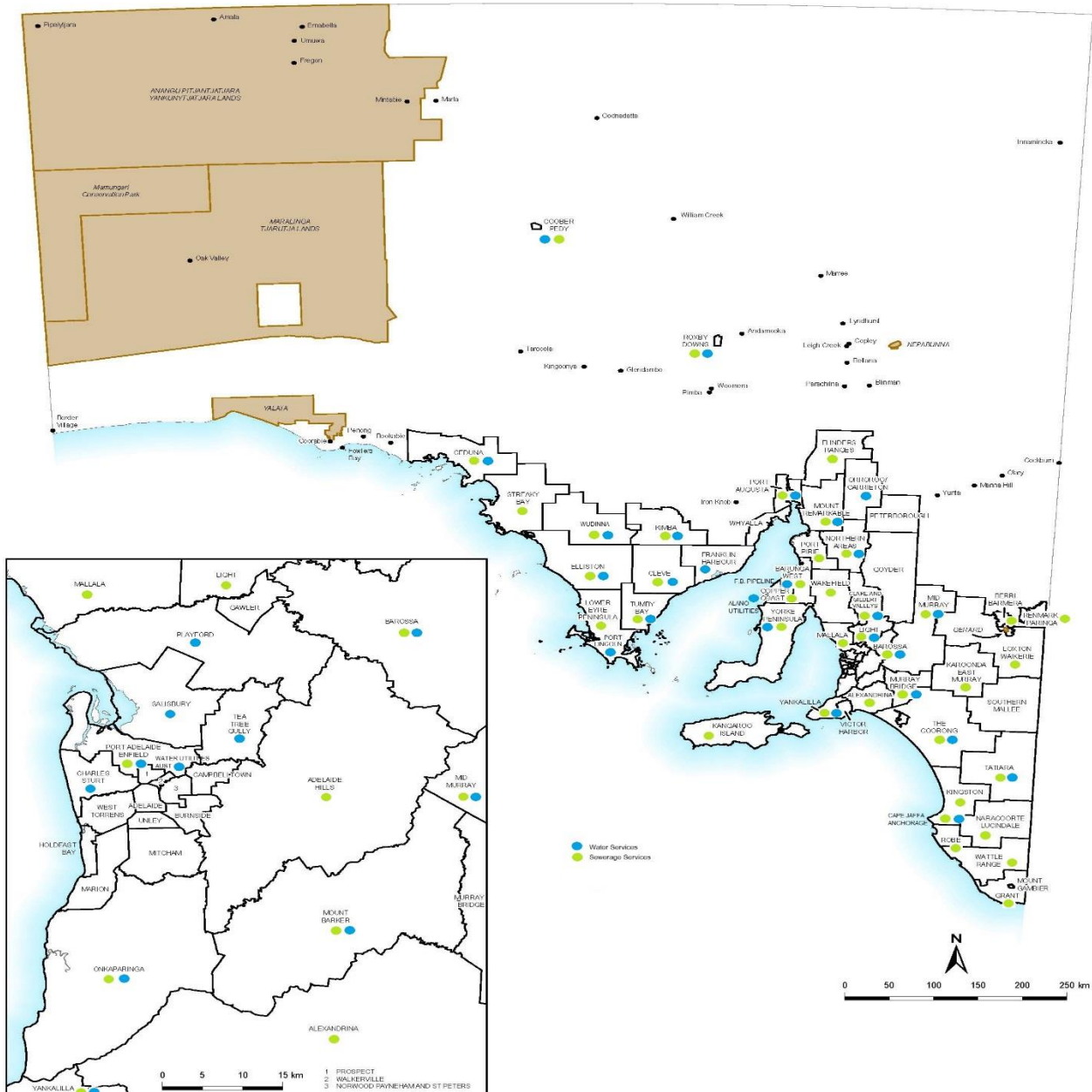
- ▶ whether retailer prices reflect the full, efficient costs of service provision, to ensure customers pay a fair price and the service is financially sustainable
- ▶ customer service and reliability of supply metrics to highlight systemic issues that impact on the quality and reliability of supply for customers
- ▶ whether retailers are providing appropriate financial assistance and consumer protection, as required by the Water Retail Code.

4 Industry summary 2013-14

At 30 June 2014, the Commission had licensed 63 Minor and Intermediate Retailers (refer Figure 1). Of those:

- ▶ 51 are licensed to provide sewerage services (through either a Community Wastewater Management System (CWMS) or a sewerage system) to around 85,000 customers (serving about 11 per cent of the State's population)
- ▶ 15 are licensed to provide drinking water services to around 6000 customers (less than one per cent of the State's population, with the majority located in Roxby Downs and Coober Pedy)
- ▶ 29 are licensed to provide non-drinking water services to around 1600 customers.

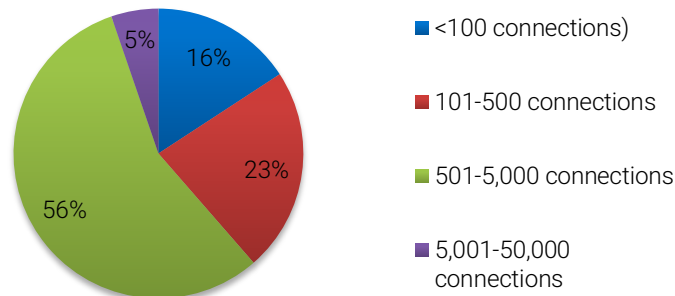
Figure 1: Geographic Location – Minor and Intermediate Retailers



The majority of retailers are Local Councils; however, seven private companies are now licensed to provide water or sewerage retail services to approximately 1500 customers in South Australia.

In terms of scale, the majority of the retailers supply services to between 500 and 5,000 connections, as shown in Figure 2.

Figure 2: Retailers by number of water and sewerage services connections supplied



5 Pricing

Under the 2013-2017 Price Determination, retailers are responsible for determining their prices. However, in doing so they must take certain pricing principles into account. Those pricing principles (adopted from the National Water Initiative Pricing Principles) look to ensure that retail services provided are cost reflective and recover the full costs of service delivery and relate to five main areas:

- ▶ cost recovery
- ▶ asset valuation
- ▶ tariff structure
- ▶ transparency
- ▶ developer charges

The Commission monitors retailers' application of the pricing principles through annual reports submitted by retailers in respect of the following matters:

- ▶ prices charged for the current and prior year (Pricing Schedule)
- ▶ how prices were developed (Pricing Policy Statement)
- ▶ a self-assessment of compliance with the pricing principles (Pricing Policy Questionnaire)
- ▶ financial data on the revenue, costs and assets employed relating to the retail service (Regulatory Accounting Statements).

5.1 Application of pricing principles in 2013-14

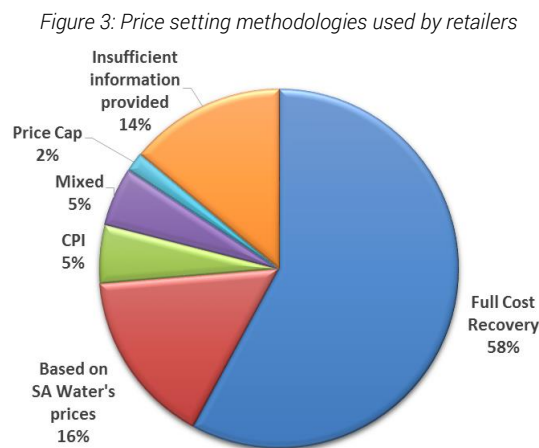
Retailers are at different stages of implementing the pricing principles. It is expected that some retailers will take time to transition to full cost reflective prices, especially if they have been historically under-recovering the costs of supplying that service.

5.1.1 Ring fencing of assets

The ability to ring-fence assets and having an asset management plan are necessary precursors to being able to calculate the full costs of supplying a service, and therefore the “full cost recovery” price for that service. 60 per cent of retailers stated that they ring-fence their water and/or sewerage service assets from the rest of the assets of the organisation. Similarly, 60 per cent of retailers stated they had an asset management plan in place for their water and/or sewerage service assets.

5.1.2 Price setting methodologies in 2013-14

58 per cent of retailers stated that their water or sewerage service prices had been set to recover the “full costs” of supplying the retail service (Figure 3). Those costs include: operating, maintenance and administrative costs; externalities; taxes; provision for the cost of asset consumption (for example, depreciation); and, the cost of capital. 16 per cent of retailers stated that their prices were based on those set by SA Water. Five per cent of retailers stated that prices increased to reflect inflation (whether or not this reflected the costs to provide the service). Some retailers provided insufficient information to determine how they were setting prices. The Commission recognises that retailers are still transitioning to full compliance with the regulatory regime and will continue to work with them to ensure full data provision in future years.



5.1.3 Actual cost recovery in 2013-14

Seven out of 13 drinking water retailers reported income covering operating costs and depreciation while, for sewerage services, 33 out of 49 retailers reported income covering operating costs. Other retailers advised that they are on the path to full cost recovery but are gradually adjusting prices so as to limit the price shock to customers. The Commission will continue to work closely with retailers to more fully understand which are fully recovering, under-recovering or over-recovering costs.

5.2 Drinking water service prices

Of the 15 Minor or Intermediate drinking water retailers licensed in South Australia, ten are council-run schemes and five are private companies (although only four of those are currently providing drinking water).

5.2.1 Drinking water prices in 2013-14

The average annual residential drinking water bills (Figure 4) are calculated assuming consumption of 200kL/year. The average annual charge ranges between \$604 and \$1272.

When comparing drinking water retail prices it is important to consider the costs of managing each system. This will depend on a number of matters such as the number of connections, length of system per connection, how source water is accessed (for example, from a river, dam, desalination plant, etc.) and the quality of the source water. The intention of the regulatory framework is not that all retailers charge the same prices for drinking water, but that they charge prices that recover the full, efficient costs of their service delivery, including asset replacement costs and an appropriate return on those assets.

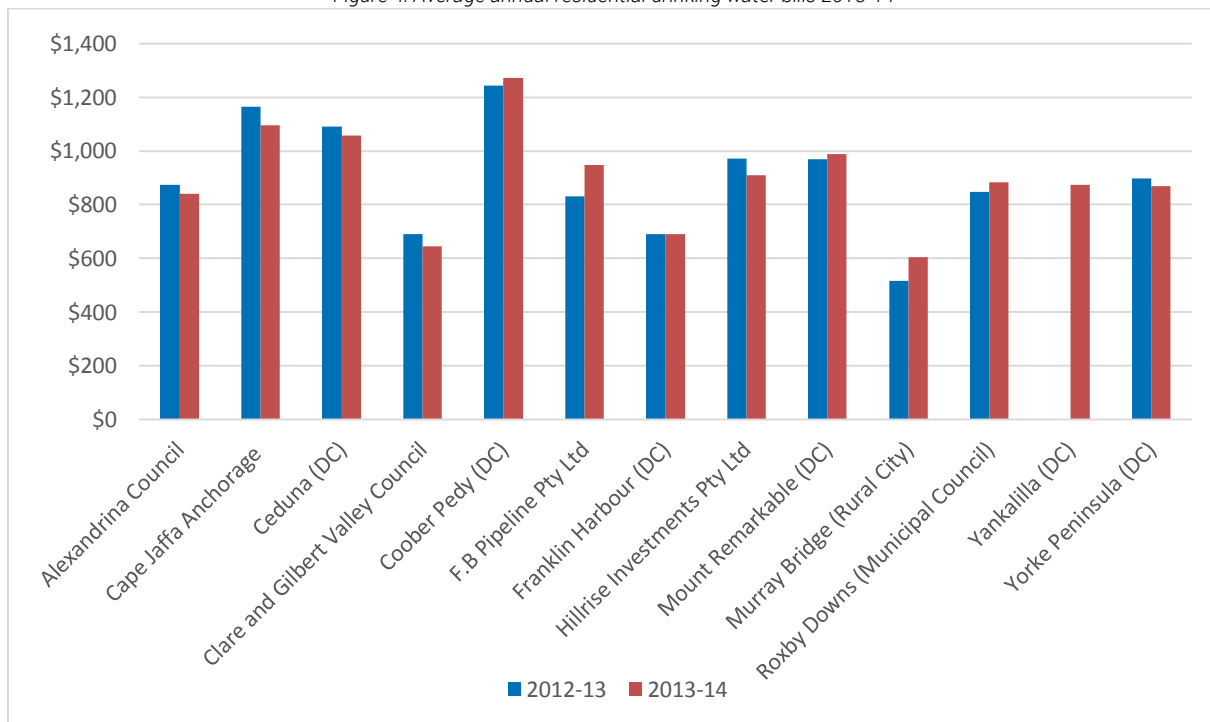
As discussed above, customer prices will differ depending on whether retailers are recovering full efficient costs. The Commission also understands that water use per customer may be significantly higher for some water providers, especially those in hot, arid regions.

5.2.2 Pricing structure

Most drinking water retailers have adopted a two-part tariff consisting of a fixed service charge and a usage charge. Seven retailers have aligned their prices to SA Water’s drinking water prices – either charging SA Water usage rates or the SA Water usage rates plus a percentage. This pricing practice does not meet the pricing principles for drinking water and the Commission will work with retailers to move towards a full cost recovery model.

It is recognised that in some circumstances, such as new developments where properties are yet to connect, strict application of a full cost recovery model may not be possible in the short-term. In these instances the Commission will seek to understand how the pricing principles would be applied in the longer term.

Figure 4: Average annual residential drinking water bills 2013-14



Notes

- 1 - The Wirinna Water Supply only fell under the District Council of Yankalilla licence from 17 June 2013 and prices relate to 2013-14. Wirinna Corporation Pty Ltd previously held a licence exemption for this service from 1 January to 30 June 2013.
- 2 - BHP Billiton Olympic Dam is licensed to provide drinking water but only provides to non-residential customers.
- 3 - Fairmont Utilities is licensed to provide drinking water but is not currently retailing.
- 4 - All calculations assume an annual residential drinking water consumption of 200 kL.

5.3 Non-drinking water service prices

There are 29 licensed non-drinking water retailers in South Australia, providing reticulated services to approximately 1600 customers in 2013-14. Non-drinking water covers recycled water, stormwater and other water that does not meet drinking water requirements. Services include delivery of recycled water to residential customers via “purple pipe” networks and the use of recycled water to irrigate public spaces such as parks and sporting grounds. About 90 per cent of recycled water customers are residential; however non-residential customers use the majority of recycled water.

5.3.1 Non-drinking water prices in 2013-14

Due to the variety of services offered by retailers it is not currently possible to make meaningful comparisons of actual prices charged by retailers for non-drinking water services.

5.4 Sewerage services prices

51 of the 63 Minor and Intermediate Retailers were licensed to provide sewerage services in 2013-14 (although one retailer did not provide a retail service in that year). Most of the sewerage service schemes are CWMS, which are designed to collect, treat, re-use and/or dispose of primary treated effluent from septic tanks on individual properties.

5.4.1 Pricing structure

Retailers generally employ one of two charging methods:

- ▶ a fixed price for all customers connected to the sewerage system
- ▶ prices based on land value (similar to the method currently used by SA Water).

Most sewerage service retailers (45) charged fixed prices to all customers. Where a retailer runs separate CWMS in each township, some retailers have chosen to vary the customer charge by township.

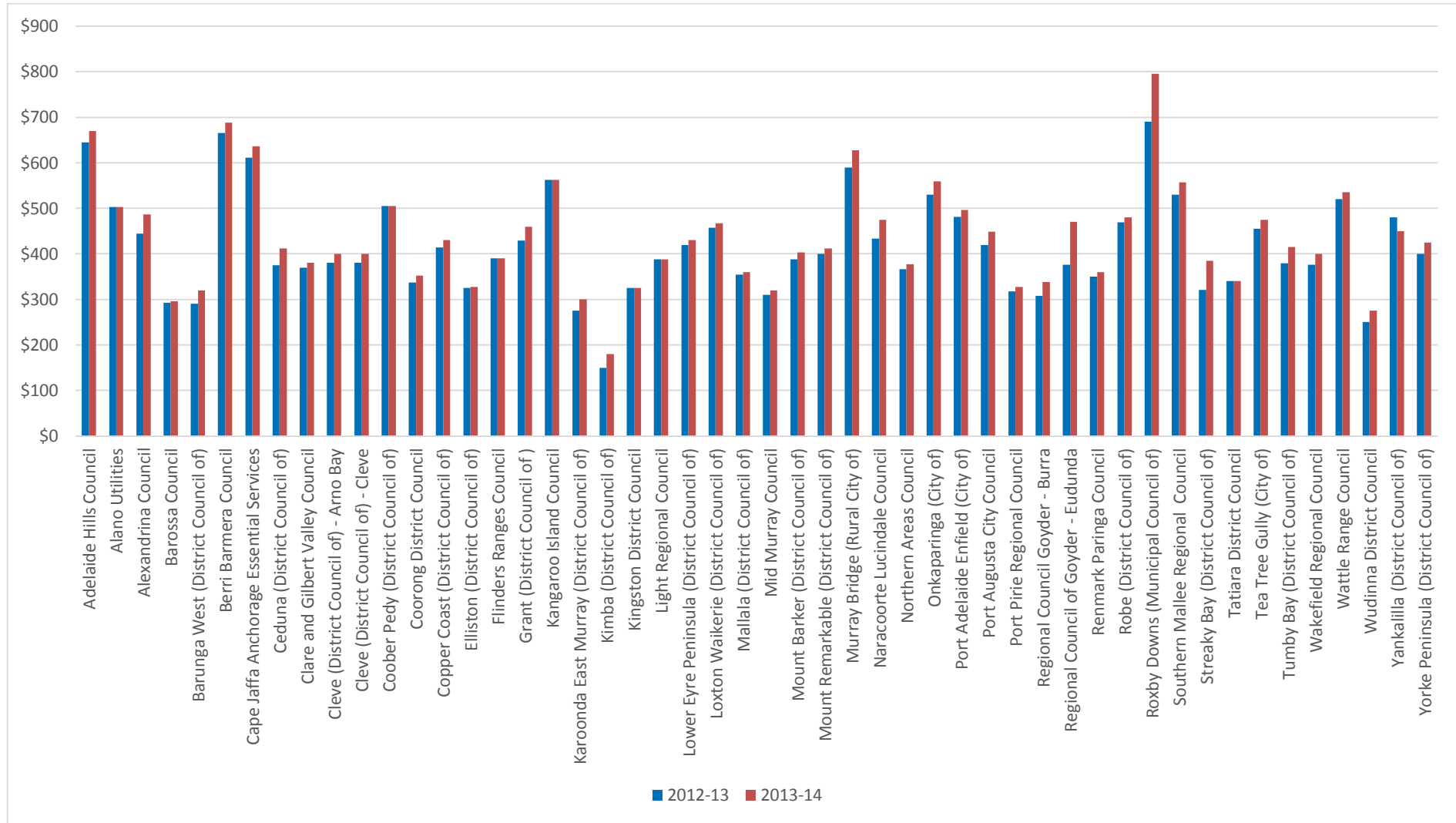
5.4.2 Sewerage prices in 2013-14

The average annual charge for sewerage services provided by retailers in 2013-14 ranged between \$180 and \$796. Figure 5 details annual charges (for occupied land only) for all licensed retailers. This reflects the prices that were charged for 2013-14 but does not evaluate the efficiency of the service provided.

When comparing sewerage retail prices it is important to consider that different retailers offer different services (for example, fully seweraged versus CWMS) and the costs of managing each system will depend on issues such as the number of connections, age of the network, length of system per connection and the topography of the area serviced. The intention of the regulatory framework is not that retailers charge the same prices for sewerage services, but that retailers charge prices that recover the full, efficient costs of service delivery, including asset replacement costs and an appropriate return on those assets. As discussed above, customer prices will also differ depending on whether retailers are currently recovering full efficient costs.

Where charges are based on land value, the average bill is based on either the average value of the properties supplied or the average amount charged to customers. Where different charges apply to separate CWMS operated by one retailer, a weighted average is used (based on the number of connected properties per CWMS).

Figure 5: Average annual residential sewerage service bills 2013-14



Notes

1 - Fairmont Utilities is licensed to provide a sewerage service but is not currently retailing.

2 - Prices vary based on connections, age of the network, length of system per connection, topography of the area serviced and if full efficient costs are being recovered.

6 Customer service and financial assistance

The Water Retail Code is the principal consumer protection document setting out the behavioural standards and requirements that retailers must comply with when dealing with their customers. It covers the following areas: customer charters; enquiry, complaint and dispute resolution procedures; hardship programs; payment and payment difficulties; and disconnections and supply restrictions for non-payment.

6.1.1 Financial assistance

As water and sewerage services are essential services, the Commission expects retailers to meet customer needs by providing a high level of customer service and assisting customers experiencing financial difficulty.

Retailers must therefore comply with the Water Retail Code's financial assistance requirements. These include flexible payment arrangements, customer hardship policies and strong rules governing the circumstances in which water supply may be restricted or debt recovery action commenced.

The framework allows those customers who are willing to pay, but are unable to do so due to financial difficulty, to maintain their supply and avoid restriction or debt recovery action. It requires retailers to actively engage with their customers to assist them in meeting their payment obligations.

However, where a customer is not willing to participate or ceases making payment for reasons other than financial difficulty, the customer may ultimately face the sanctions of restriction or debt recovery. Importantly, in no case may a customer's water supply ever be disconnected for non-payment of a bill.

The following sections discuss these requirements and the data reported against these measures by retailers in 2013-14.

6.1.2 Hardship program

The Minister for Communities and Social Inclusion has developed and published a Residential Customer Hardship Policy for Minor and Intermediate retailers (**Minister's hardship policy**). Retailers must adopt the Minister's hardship policy or a modified version that has been approved by the Commission.

The policy outlines a range of processes and programs that a retailer will use, or apply, to assist customers that have been identified as experiencing payment difficulties. Where a customer is participating in a hardship program, a retailer cannot arrange for water restrictions and legal actions to be applied for non-payment.

Retailers that are Councils may have a general hardship policy in place that also covers the general rates notice. Councils have the option to apply the Minister's hardship policy to all its rates or only its water and sewerage services.

6.1.3 Debt recovery process

Under the regulatory framework, a retailer is not permitted to disconnect a customer's supply of a sewerage service or water service for non-payment of a bill. It may, however, restrict the supply of a water service by constraining the maximum flow of water into a property or commence debt recovery action for non-payment of a bill (although not both simultaneously) but only as a last resort. Of note, a retailer cannot undertake debt collection activity where it has installed a flow restriction device.

Under the Water Retail Code, there are significant notification, financial assistance and hardship obligations placed on retailers before these actions can be considered. The Commission expects that retailers with the most effective financial assistance policies in place would undertake further contact than the minimum required by the Water Retail Code.

6.2 Customer complaints

All retailers are required to submit their Enquiries, Complaints and Dispute Resolution Procedures to the Commission for approval. As at 31 January 2015, 31 retailers (approximately half) had done so.

During 2013-14, 28 retailers reported receiving a water or sewerage service related complaint. There were 75 complaints received regarding water services, 93 regarding sewerage services and 43 other complaints. Five retailers indicated that they do not currently have systems in place to record water or sewerage service-related complaints separate from complaints relating to other services provided. Of these, two retailers indicated they were investigating how complaints information could be more accurately captured.

Seven retailers have joined the Energy and Water Ombudsman SA (**Ombudsman**). During 2013-14, only one complaint was referred to the Ombudsman in respect of those retailers.

6.3 Hardship programs and flexible payment arrangements in 2013-14

As at 31 January 2015, six retailers had adopted the Minister's hardship policy without modification and 16 retailers had submitted modified policies to the Commission for approval.

Nine retailers reported that they had customers participating in their hardship programs as at 30 June 2014. However, of these only three have either adopted the Minister's hardship policy or submitted a modified policy to the Commission for approval. The other six were all councils that may be erroneously reporting customers participating in the Council's general hardship policy. The Commission is continuing to work with retailers while they transition towards full compliance with this requirement.

More retailers reported customers on a flexible payment arrangement than participating in a hardship program. As at 30 June 2014, 28 retailers reported a total of 3161 residential customers on a flexible payment plan.

6.4 Debt recovery in 2013-14

Four retailers applied water restrictions to a total of 18 residential customers for non-payment of a water bill during 2013-14. 21 retailers commenced legal action against a total of 602 residential customers for non-payment of a water or sewerage service bill in 2013-14.

Many Councils were unable to separate whether a legal action was undertaken for non-payment of a water or sewerage service bill or non-payment of general rates as both are billed together.

7 Reliability of supply

The Water Retail Code sets quality, safety and reliability of supply requirements for retailers of water and sewerage services. Notably, retailers must:

- ▶ provide a reliable supply to customers
- ▶ minimise the frequency and duration of interruptions
- ▶ have in place policies, practices and procedures to minimise the impact of unplanned interruptions.

The Commission monitors the following reliability of supply measures (for both water and sewerage services) to assess how well retailers are adhering to these requirements:

- ▶ for unplanned interruptions – number of events, customers affected, and the average duration
- ▶ numbers of mains breaks and chokes
- ▶ number of sewerage overflow events.

The Water Retail Code allows for the implementation of service standards it required.

Drinking water retailers reported a total of 18 unplanned interruptions in 2013-14, affecting 2145 customers (38 per cent of all customers).

28 sewerage retailers reported a total of 201 unplanned interruptions to customers' supply in 2013-14. Most retailer schemes are CMWS (where a customer has a septic tank on their property) and the incidence of supply outages are expected to be lower than with sewerage systems.

Some retailers were unable to provide supply interruptions data in 2013-14. It is expected that all retailers will have processes in place that will allow accurate interruptions data to be reported in future years.

8 Compliance

The Commission has established Water Industry Guideline 1 – Compliance Systems and Reporting (**Water Guideline No. 1**) which:

- ▶ encourages regulated entities to actively cooperate in the early reporting and rectification of any identified non-compliance
- ▶ uses a risk-based approach as far as possible in both compliance monitoring and enforcement, based on the likelihood of a breach of a regulatory obligation and the possible consequences of such a breach
- ▶ reserves stronger enforcement action for more serious cases involving wilful or systemic non-compliances with major consequences, or circumstances in which other processes have not had the desired remedial effect.

Retailers must provide annual compliance reports to the Commission in the form set out in Water Guideline No. 1.

8.1 Compliance reporting in 2013-14

Overall, the Commission found retailer annual compliance reports to be of an adequate standard. It is liaising with many retailers about their compliance obligations and providing feedback on the reports.

The Commission will work closely with water and sewerage service licensees throughout the remainder of the regulatory period, with a view to licensees achieving full compliance with the regulatory framework by 1 July 2017.

