

Minor and Intermediate Retailers Regulatory Performance Report 2018-19

Key messages

- ▶ Collectively, 66 Minor and Intermediate Retailers provide drinking water services to approximately 5,600 customers and sewerage services (including Community Wastewater Management Systems) to approximately 99,100 customers.
- ▶ The scale and scope of water and sewerage services offered varies considerably across retailers, contributing to the spread of customer prices and service performance.
- ▶ Seventy one percent of retailers reported fully complying with all of the relevant pricing principles and 64 percent reported fully recovering the costs of service provision.
- ▶ Of the 36 percent of retailers that reported operating deficits, many are still transitioning to full cost recovery and are gradually adjusting prices to limit the potential for price shocks.
- ▶ Retailers reported receiving 405 complaints in 2018-19, compared to 334 in the previous year. The majority of those complaints were related to sewerage services.
- ▶ At 30 June 2019, 18 retailers reported having a total of 192 residential customers of drinking water and sewerage services participating in their hardship programs, compared to 15 retailers and 114 residential customers last year.
- ▶ At 30 June 2019, 38 retailers reported having a total of 5,979 residential customers of drinking water and sewerage services on their flexible payment arrangement plans, compared to 36 retailers and 5,393 residential customers last year.
- ▶ For drinking water services, retailers reported less unplanned interruptions and main breaks (32 in total), compared to 34 in the previous year. For sewerage services (including Community Wastewater Management Systems), retailers reported more unplanned interruptions and main breaks (579 in total), compared to 353 in the previous year.
- ▶ Retailers reported an increase in the number of legal actions and water restrictions (939 in total) to recover debts, compared to 908 in the previous year.
- ▶ During the 2020-21 reporting period, the Commission will carry out planned audits to assess how water retailers manage compliance with various consumer protection obligations including, but not limited to, hardship processes and billing information.

The Essential Services Commission (**Commission**) is the economic regulator of the South Australian water industry. One of the Commission's key regulatory functions is to monitor and publicly report on the performance of water businesses.

This report covers the performance of water and sewerage service retailers with 50,000 or fewer connections (**Minor and Intermediate Retailers**). A separate report on South Australian Water Corporation, which is the largest provider of water and sewerage services in South Australia, can also be found on the Commission's website at: <http://bit.ly/water-regulatoryperformancereports>.

Collectively, 66 retailers licensed under the *Water Industry Act 2012 (WI Act)* provide drinking water services to approximately 5,600 customers and sewerage services, and Community Wastewater Management Systems (CWMS), to approximately 99,100 customers.

Minor and Intermediate Retailers are required to comply with a Regulatory Determination that sets pricing principles that must be followed by retailers,¹ a Water Retail Code that establishes consumer protection measures, and reporting requirements covering the following matters:

- ▶ pricing of water and sewerage services
- ▶ customer service and financial assistance, and
- ▶ reliability of service.

Further information on the above matters can be found at: <http://bit.ly/water-regulatoryperformancereports>.

How were Minor and Intermediate Retailers pricing their drinking water and sewerage retail services?

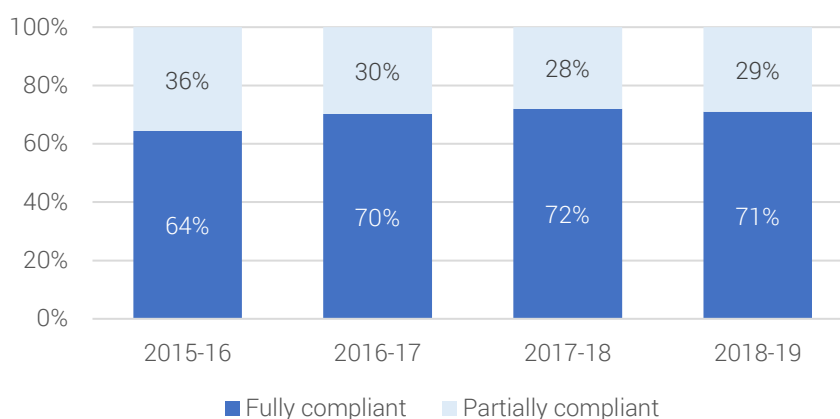
Minor and Intermediate Retailers are responsible for determining their water and sewerage service prices.² However, under the Regulatory Determination they must take the National Water Initiative (NWI) pricing principles into account when setting their water and sewerage service (including CWMS) prices.

Under the NWI, a set of pricing principles was developed to guide the price-setting process. These principles seek to promote cost recovery, pricing transparency and other related matters.

Most Minor and Intermediate Retailers reported being fully compliant with the National Water Initiative pricing principles

Figure 1 shows 71 percent of retailers reported fully complying with all of the relevant pricing principles in 2018-19. Of the remaining 29 percent of retailers who reported partial compliance (meeting some but not all of the relevant pricing principles), the key reason was difficulty in achieving full cost recovery due to a small customer base and/or customers' capacity to pay.

Figure 1: Reported level of compliance with the NWI pricing principles



¹ The Essential Services Commission, *Economic Regulation of Minor and Intermediate Retailers of Water and Sewerage Services – Final Decision*, June 2013, available at: <http://www.escosa.sa.gov.au/projects-and-publications/projects/water/economic-regulation-of-minor-and-intermediate-water-retailers>. The Commission made a subsequent determination to extend the term of the Price Determination until such time as a new price determination is made or it is revoked, available at: <https://www.escosa.sa.gov.au/projects-and-publications/projects/water/variation-to-2013-2017-price-determination-for-mir-to-extend-its-operation/variation-2013-17-price-determination-for-mir-to-extend-its-operation>.

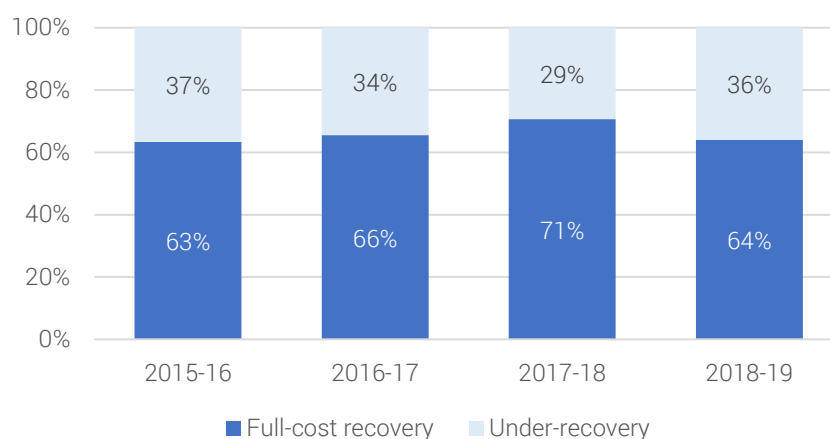
² Prices for drinking water and sewerage services provided by the Municipal Council of Roxby Downs are set pursuant to Clause 13 of the Schedule to the *Roxby Downs (Indenture Ratification) Act 1982*.

Figure 2 shows that 64 percent of retailers reported operating income which covered operating costs and depreciation in 2018-19. This measure is a reasonable proxy for whether or not retailers are recovering the costs of service provision.

For the remaining 36 percent of retailers that reported operating deficits, the key reasons were:

- ▶ retailers still transitioning to full cost recovery³
- ▶ limitations in retailers' ability to recover the cost of service provision (for example, due to a small customer base and/or public benefit reasons such as supply to community areas), and
- ▶ minimising price shocks to customers (for example, due to increased operating or capital expenditures).

Figure 2: Reported level of cost recovery



Drinking water service prices vary among drinking water retailers

In 2018-19, the annual residential drinking water bills based on an annual consumption of 200 kilolitres (kL) for drinking water services ranged from \$662 (Clare and Gilbert Valleys Council) to \$1,273 (District Council of Ceduna).⁴

Drinking water retail prices reflect the costs of managing each system (for example, number of connections, length of system per connection, age of the network, topography of the area serviced and quality of the source water). Further, the methodology used to set prices (for example, whether prices are set on a cost recovery basis) also differs between retailers. Prices paid by different retailers' customers will therefore differ for those and related reasons.

Sewerage services prices also vary among sewerage/CWMS retailers

Similarly, the average annual charge (for occupied land only) for sewerage/CWMS differs between retailers, ranging from \$250 (District Council of Kimba) to \$972 (Adelaide Hills Council) in 2018-19.

Again, when considering sewerage retail prices, it is important to consider the nature of the service provided (for example, fully seweraged versus CWMS) and the costs of managing each system (for example, number of connections, age of the network, length of system per connection and the topography of the area serviced).

Non-drinking water service prices

Non-drinking water covers recycled water, stormwater and other water that does not meet drinking water requirements. Such services include delivery of recycled water to residential customers via 'purple pipe'

³ There may be differences between retailers in their interpretation of 'full cost recovery'. For example, some retailers may interpret it as including all economic costs, including return on assets, while other retailers restrict their interpretation to operating costs.

⁴ Data excludes the Rural City of Murray Bridge as metered water supplied to sections of Woodlane are only charged for any usage above 130kL per annum.

networks and the use of recycled water to irrigate public spaces such as parks and sporting grounds (where the water is charged for).

Approximately 95 percent of recycled water customers are residential. However, non-residential customers use the majority of recycled water by volume.

Minor and Intermediate Retailers' customer service performance and how they assist customers experiencing financial hardship

As water and sewerage services are essential services, Minor and Intermediate Retailers are required to meet customer needs by providing a high level of customer service and assisting those customers experiencing financial difficulty.

The Water Retail Code is the principal consumer protection document that sets out the behavioural standards and requirements with which retailers must comply when engaging with their customers.

All Minor and Intermediate Retailers must have in place enquiries, complaints and dispute resolution procedures that have been approved by the Commission. These procedures should clearly set out how customers can make an enquiry or complaint about the services they receive.

Further, retailers must offer programs to help customers experiencing financial hardship, such as flexible payment arrangements, customer hardship policies, and rules governing supply restrictions and debt recovery. Retailers must also actively engage with their customers to assist them in meeting their payment obligations.

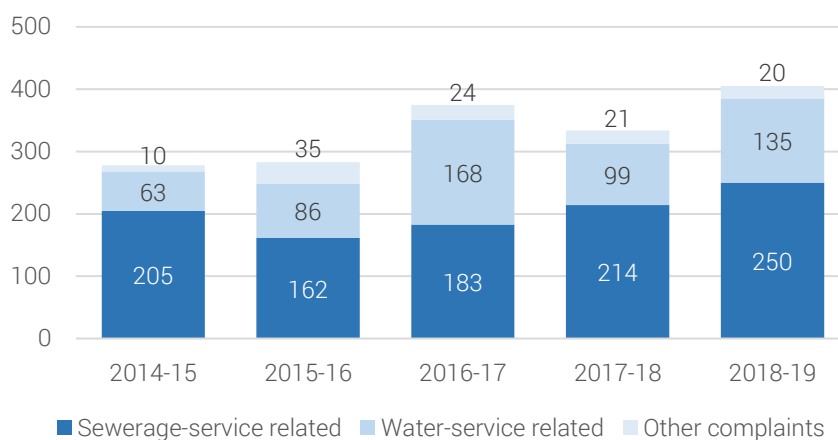
These obligations allow customers who are willing to pay, but are unable to do so due to financial difficulty, to maintain their supply and avoid restriction or debt recovery action. However, where a customer is not willing to participate or ceases making payment for reasons other than financial difficulty, restriction or debt recovery may apply.

Minor and Intermediate Retailers reported more customer complaints

Thirty of the 66 retailers reported receiving a total of 405 customer complaints in 2018-19, compared to 334 complaints reported by 27 retailers in the previous year. The majority of complaints received by retailers in 2018-19 were related to sewerage services.

The increase in the number of water-related complaints was mainly related to a single event of discoloured water associated with recycled water services provided by the City of Salisbury. That event accounted for approximately 30 of the total number of water-service related complaints.

Figure 3: Number of complaints by service



Of the 30 retailers that reported receiving complaints, Alexandrina Council was the only retailer whose reporting system is unable to differentiate customer complaints separately from other reporting metrics (for example, third-party notification of sewerage overflows).

Seven retailers are currently members of the Energy and Water Ombudsman SA (EWOSA) scheme.⁵ EWOSA assists customers with complaints that cannot initially be resolved between a water and/or sewerage retailer and the customer.

In 2018-19, EWOSA separately received two complaints in relation to the water and/or sewerage services provided by Minor and Intermediate Retailers.

Some customers accessed financial assistance offered by Minor and Intermediate Retailers

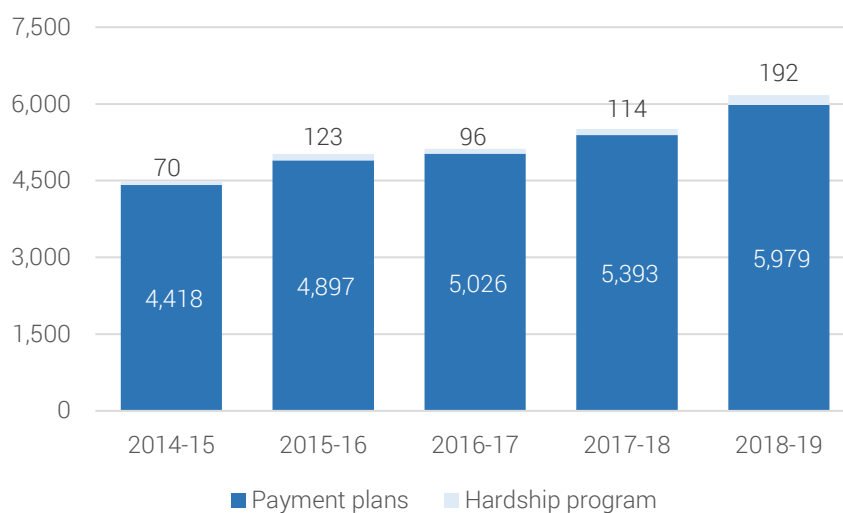
Figure 4 shows that 18 retailers reported that 192 residential customers were participating in hardship programs as at 30 June 2019, with 38 retailers further reported having 5,979 residential customers on a flexible payment arrangement plan. To put those figures in context, they represent 0.2 percent and 5.5 percent of the entire customer base serviced by Minor and Intermediate Retailers in South Australia respectively.

As at 30 June 2018, 15 retailers reported that 114 residential customers were participating in their hardship programs and 36 retailers further reported having 5,393 residential customers on a flexible payment arrangement plan.

The Hardship Policy developed by the South Australian Minister for Human Services outlines processes that a retailer must use to assist customers identified as experiencing payment difficulties. Minor and Intermediate Retailers must offer residential customers flexible payment arrangements (for example, payments in advance, short-term bill extensions and instalments).

Of those retailers who have reported having customers accessing financial assistance, two (Alexandrina Council and Tatiara District Council) were unable to separately report on the number of water and sewerage service customers participating in hardship programs and flexible payment plans from their general ratepayers on comparable programs and plans.

Figure 4: Number of residential customers on a hardship program and flexible payment plans⁶



⁵ The Ombudsman South Australia separately deals with general complaints about local councils.

⁶ Data may not be wholly comparable from year to year due to the changes in the number of Councils able to separately report on the number of water and sewerage service customers participating in hardship programs and flexible payment plans from their general ratepayers on comparable programs and plans.

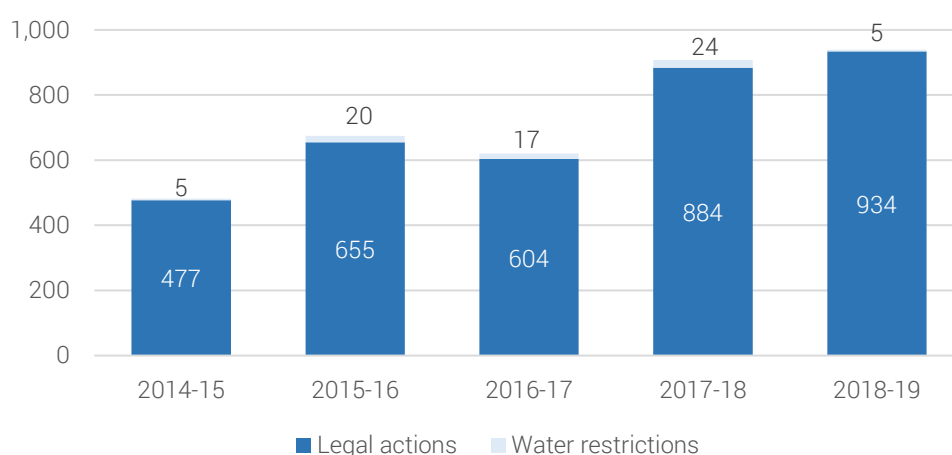
Minor and Intermediate Retailers reported a slight increase in the total number of legal actions and water restrictions to recover bad debts

Three retailers reported that five water restrictions were applied to residential customers for non-payment of a water bill in 2018-19. Twenty-one retailers further reported having commenced legal actions against a total of 934 residential customers for non-payment of a water or sewerage service bill.⁷

Of those retailers, Alexandrina Council and Tatiara District Council were unable to separately report the number of legal actions undertaken for non-payment of a water or sewerage service bill from their general ratepayers with comparable legal action undertaken.

Figure 5 shows that in total, the number of water restrictions and legal actions undertaken for non-payment of a water or sewerage service bill have increased to 939 in 2018-19, compared the total of 908 reported in the previous year.

Figure 5: Number of water restriction and legal action undertaken against residential customers for non-payment of a water or sewerage bill



Minor and Intermediate Retailers must not disconnect a customer's supply of a sewerage service or water service for non-payment of a bill. They may, however, restrict the supply of a water service by constraining the maximum flow of water into a property or may commence debt recovery action for non-payment of a bill (although not both simultaneously), but only as a last resort.

Before arranging for the restriction of water services, a retailer must use their best endeavours to contact the customer to offer financial assistance – for example, offering access to its financial hardship program.

Minor and Intermediate Retailers' reliability performance

The Water Retail Code sets quality, safety and reliability of supply requirements for Minor and Intermediate Retailers.⁸ Notably, retailers must:

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

All Minor and Intermediate Retailers must provide a reliable supply to customers, minimise the frequency and duration of interruptions, and have in place policies, practices and procedures to minimise the impact of unplanned interruptions.

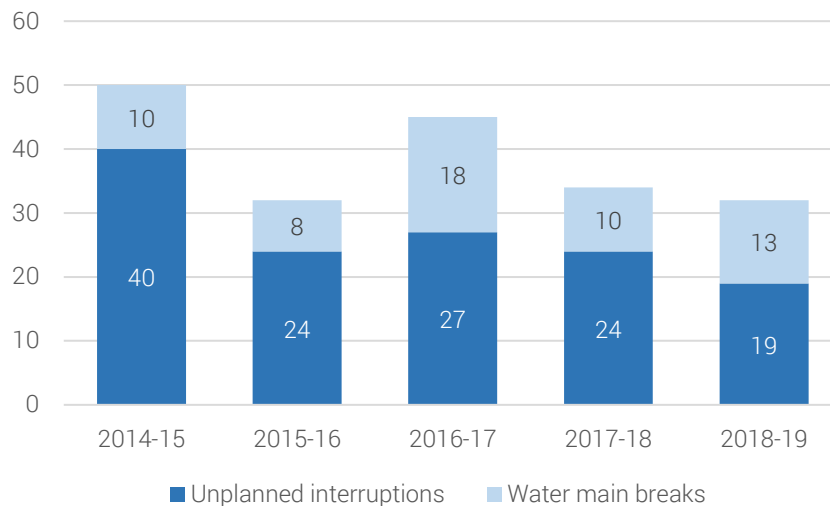
⁷ Legal action commences from issue of summons. It does not include where a retailer threatens to take legal action, but does not proceed.

⁸ Infrastructure reliability data for District Council of Coober Pedy was unavailable.

Minor and Intermediate Retailers reported fewer unplanned interruptions and mains breaks in total for drinking water services

Figure 6 shows that five drinking water retailers reported a total of 19 unplanned interruptions in 2018-19, affecting 352 customers. Five retailers reported a total of 13 water main breaks. In comparison, a total of 34 unplanned interruptions and mains breaks for drinking water services were reported in the previous year.

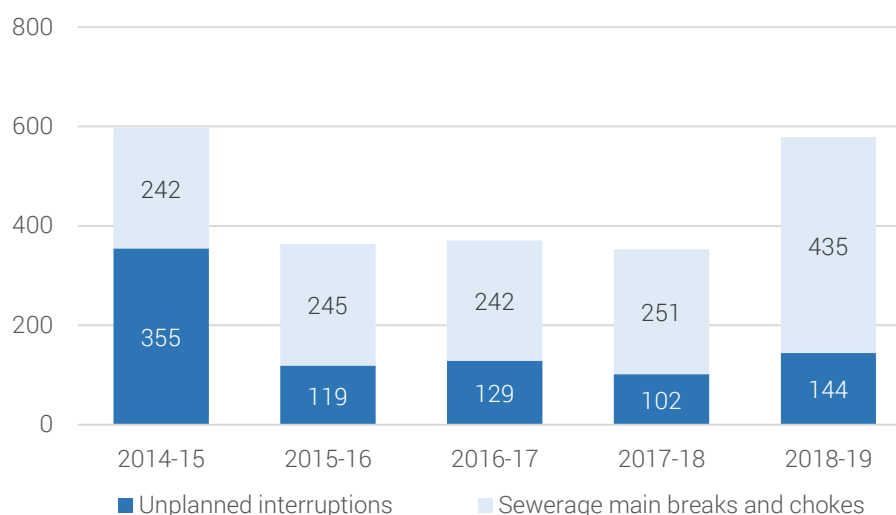
Figure 6: Number of unplanned interruptions and mains breaks for drinking water services



Minor and Intermediate Retailers reported more unplanned interruptions and mains breaks for sewerage services

Twelve sewerage retailers reported a total of 144 unplanned interruptions to sewerage services. Twenty-four retailers reported 435 sewerage main breaks and chokes, a significant increase compared to previous years. In comparison, a total of 353 unplanned interruptions and mains breaks for sewerage services were reported in the previous year.

Figure 7: Number of unplanned interruptions and mains breaks for sewerage services



Of the reported sewerage main breaks and chokes, approximately 300 of those were related to the CWMS services provided by the City of Tea Tree Gully Council. A report prepared by the Council has identified the ageing infrastructure to be a key contributor and that Council crews are increasingly responding to incidents of clay pipes cracking and blockages.⁹

This case highlights the adverse effect that deferral of capital expenditure can have on the long-term reliability outcomes for customers and the importance of councils managing expectations around pricing and the level of investment necessary to sustainably maintain and replace assets. The Commission expects retailers to transparently, and actively, engage with customers over the required funding strategy and to manage expectations around appropriate price and service levels.

In June 2020, the Minister for Environment and Water has announced that SA Water will assess the condition of the CWMS to map the immediate and long-term works required to bring its performance up to standard, and will work together with the City of Tea Tree Gully Council and the CWMS customers on a plan to progressively take over operations.

How compliant were Minor and Intermediate Retailers with their regulatory obligations?

The Commission is required to monitor and, if necessary, take enforcement action in respect of the compliance of water and sewerage retailers on an ongoing basis. Throughout the year there are matters that may require further investigation and/or compliance actions being taken to mitigate consumer impact and rectify any adverse actions or behaviours.

Investigation into the District Council of Coober Pedy's non-compliance with its regulatory obligations

In 2018-19, the Commission investigated the District Council of Coober Pedy's compliance with various licence obligations relating to billing, payment arrangements and restriction processes. This investigation identified deficiencies in the District Council of Coober Pedy's systems and processes that were impacting its customers.

The Commission found that the District Council of Coober Pedy was not compliant with its regulatory obligations, including key consumer protection requirements set out in Water Retail Code – Minor and Intermediate Retailers and failing to identify and report those non-compliances to the Commission.

Those matters have been addressed by the District Council of Coober Pedy and it has now documented compliant policies and processes which, if properly put into practice, should appropriately manage customers experiencing financial difficulties or facing disconnection.

The Commission is continuing to assess compliance and will conduct both its own as well as an independent audit of the District Council of Coober Pedy in 2020, to review whether or not there has been effective implementation of those amended policies and procedures.

⁹ Refer: https://www.teatreegully.sa.gov.au/files/assets/public/community_wastewater_management_system_cwms_asset_management_plan_-_2018_-_final.pdf.

Other compliance matters

Under the regulatory framework, Minor and Intermediate Retailers' obligations fall within two broad categories:

- ▶ service delivery obligations (for example, pricing, financial and reliability), and
- ▶ administrative obligations (for example, prompt lodgement of annual reports and licence fee, and notification to the Commission of a change in public officer).

In 2018-19, the Commission's collection and monitoring of various data sources identified 21 water retailers that have failed to fully comply with administrative obligations. These non-compliances include:

- ▶ late lodgement of licence fees and/or annual compliance reporting
- ▶ failure to prominently display the Customer Charter in a location to which customers regularly have access, and
- ▶ incorrect delegation for sign off for Annual Compliance Reporting.

The Commission has corresponded with each of those 21 retailers, seeking detailed responses on how the non-compliances will be rectified and the actions the retailers will take to ensure ongoing compliance with their regulatory obligations.

The Commission expects all water retailers to meet all regulatory obligations and, for instances of non-compliance, to rectify those swiftly with limited customer impact.

During the 2020-21 reporting period, the Commission will carry out planned audits to assess how water retailers manage compliance with various consumer protection obligations, including, but not limited to hardship processes and billing information.

The Essential Services Commission is an independent statutory authority with functions in a range of essential services including water, sewerage, electricity, gas, rail and maritime services, and also has a general advisory function on economic matters. For more information, visit www.escosa.sa.gov.au.

Essential Services Commission

GPO Box 2605 ADELAIDE SA 5001

Telephone: (08) 8463 4444 E-mail: escosa@escosa.sa.gov.au Web: www.escosa.sa.gov.au