



12 May 2023

Essential Services Commission
Level 1
151 Pirie Street
ADELAIDE SA 5000

BY EMAIL escosa@escosa.sa.gov.au

Dear Sir / Madam,

**ROBUSTO INVESTMENTS / COMPASS SPRINGS DRINKING WATER PRESERVATION
REGULATORY DETERMINATION - DRAFT DECISION**

We refer the request for submissions on the above issued by ESCOSA on Wednesday 5 April for a Price Determination to take effect from 1 July 2023.

This submission provides a summary of information that has been provided to ESCOSA in recent communications and responds specifically to the Draft Determination. This letter augments the information provided to ESCOSA on 4 January 2023, 31 January 2023, 7 April 2023 and 11 April 2023.

We reaffirm that we consider that the release of the Draft Determination was premature, as it gave no consideration to the information we provided to ESCOSA in responding the detailed queries in ESCOSA's Statutory Notice and Request for Information (SN & RFI) which was issued late last year.

The information that Robusto has provided has taken it a considerable amount of time to compile and necessitated the receipt of accounting and economic advice from external consultants. The information is new, important, has not been considered in prior Price Determinations and must be properly considered by ESCOSA in reviewing any future Price Determination including this current draft.

This submission, and the information provided to ESCOSA in response to its SN & RFI must be fully and properly considered. If ESCOSA fails to properly consider this information, then has failed to address its obligations under the Water Act and the National Water Pricing Principles ("NWIPP") to ensure Robusto receives sufficient revenue streams to allow the efficient delivery of the required services (see NWIPP at [64 ii]) and to achieve full-cost recovery for water services to ensure business viability (see NWIPP at [65 i]).

ESCOSA should ensure that Robusto is able to immediately employ a significantly different pricing regime to that suggested in the Draft Determination.

The Draft Determination's Executive Summary suggests *"..the 24 month term of operation of allows for, and promotes, engagement, consultation and stakeholder input into a comprehensive review (potentially including new capital expenditure)."*

This is, with respect, unnecessary and misleading. Robusto's customers are very well versed in the ~~position of the business, and their views have been sought and obtained in respect of~~



three Price Determinations by ESCOSA over the past two years. In any event a consultation process can occur going forward in parallel to an established pricing model which establishes Robusto's business viability for the first time in seven years.

ESCOSA has issued multiple draft Price Determinations over the past two years and has had the benefit of feedback each time.

ESCOSA must give full and proper consideration to the capital expenditure invested by Robusto in the network since 2016 to the present day. [REDACTED]

[REDACTED] Robusto must be allowed to secure a reasonable and proper commercial return on this investment in this Price Determination.

[REDACTED]

It is for this reason that earlier this year we proposed a much shorter Price Determination of 6 months. [REDACTED]

[REDACTED] As you might expect an expansion of the network will ultimately lead to lower supply costs per customer.

The title "Drinking Water Preservation Regulatory Determination" is misleading. It should properly be called an "**Interim Price Determination**". We are of the view this Interim Determination should only extend for a period of **6 months** for reasons explained below.

Earlier this year we proposed a 6 month extension of the current price determination with the maximum revenue control figure and the maximum nominal prices for supply and consumption to be increased by the amount of inflation in the 12 months to 30 June 2023. This would have enabled the "status quo" to be maintained pending the decision by SACAT.

ESCOSA is well aware that final submissions are being made to the SACAT in relation to our objections to the prior Price Determinations issued by ESCOSA. We consider that each of the Price Determinations are flawed and manifestly inaccurate.

The findings of the Tribunal are likely to have a material impact upon the future Price Determinations. It makes no sense for ESCOSA to lock in a Price Determination now for two years when it knows it will have the benefit of the Tribunal's review in the next few months.

In this regard we note the the Order of the Tribunal made on 8 March 2023 that ESCOSA failed to address the correct issues in its internal review in June 2021. We will be submitting that ESCOSA has also failed to correctly address the various elements which go to make up Robusto's cost base to determine the maximum revenue control figure in each of its determinations. Ultimately if SACAT agree with us then those finding will make a fundamental difference to any future price determination.

ESCOSA has had much of the information provided in this submission in its hands for months.

If ESCOSA decide to press on with the Draft Determination, then there is no reasonable basis for the information to be ignored or its consideration delayed. The information should be factored into the Price Determination to be published with effect from 1 July 2023.



Overview

ESCOSA's Draft Determination is manifestly inadequate and inaccurate and does not properly address Robusto's real current operating costs, recent capital expenditure, actual expansion of the network and planned expansion of the network.

As ESCOSA well knows, Compass Springs has been sustaining very significant financial losses since taking over the water business in 2016. These losses have been caused by ESCOSA's failure to agree to the proposed pricing model provided 6 years ago under the 2013 - 2017 Price Determination for Minor and Intermediate Retailers and since that time its intransigence on amending our water pricing, despite repeated warnings that the pricing structure imposed by ESCOSA jeopardizes the ongoing viability of the business.

ESCOSA has delayed for over 6 years since we first put forward a Pricing Submission in March 2017 in conformance with the the 2013 - 2017 Price Determination for Minor and Intermediate Retailers and the NWIPP.

Compass Springs has been operating on an efficient cost basis throughout this period (June 2016 to now), yet ESCOSA has failed to make a commercial, reasonable and proper assessment of our operating costs in determining the basis for our charges.

[REDACTED]

The Draft Determination lacks commercial realism and goes nowhere near ensuring that we can maintain a viable business in the period.

[REDACTED]

[REDACTED]

[REDACTED]

We will be serving our closing address on Monday in relation to the SACAT application . Please take into account the matters we raise in that closing address in respect of your consideration of the Price Determination to be published with effect from 1 July 2023.

Operative Period of the Determination

We are of the view that the Determination should be only for a period of **6 months**, expecting that it could be replaced at the end of that period by a Price Determination which reflects the finding of the Tribunal



We anticipate the findings of the Tribunal will be released mid-2023. This allows plenty of time for a new Price Determination to be issued by the end of 2023.

This Price Determination should be viewed as an interim measure pending the findings of the SACAT review. If ESCOSA is not willing to issue a Price Determination for six months with “status quo” pricing as described above, then it should do so for 12 months using the pricing model explained below.

Water Supply and Tiered Pricing

Maximum Revenue - Compass Springs submits that its maximum allowable revenue from residential drinking water customers should be **\$739,012** for the 2023/24 financial year.

Compass Springs submits that its maximum pricing for drinking water customers for the period 1 July 2023 through 30 June 2024 should be determined as follows (assuming 209 customers)

Quarterly Supply Charge up to	\$792
Tier 1 charge per KL (0 - 30 KL) up to	\$5.00
Tier 2 charge per KL (30 - 130 KL) up to	\$6.00
Tier 3 charge per KL (>130 KL) up to	\$7.00



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f. [REDACTED]

g. [REDACTED]

[REDACTED]

h. [REDACTED]

We are prepared to expand upon any aspect of this submission if that would assist ESCOSA.

Yours faithfully,

**Managing Director
COMPASS SPRINGS**