

OFFICIAL



Prices for 1 July 2024 to 30 June 2025: Robusto Investments Pty Ltd Drinking Water Preservation Regulatory Determination

Explanatory document

June 2024

OFFICIAL

Enquiries concerning the maximum nominal prices should be addressed to:

Essential Services Commission
GPO Box 2605
ADELAIDE SA 5001

Telephone: (08) 8463 4444
Freecall: 1800 633 592 (SA and mobiles only)
E-mail: reviews@escosa.sa.gov.au
Web: www.escosa.sa.gov.au

Table of contents

Glossary of terms	ii
1 Summary.....	3
2 Background.....	5
3 Implementation of pricing methodology	6
3.1 Parameter definitions previously determined	6
3.2 Parameters previously determined	7
3.3 Parameters updated by the Commission for 2024-25.....	7
3.4 Derivation of prices for 2024-25	7

Glossary of terms

Commission	Essential Services Commission, established under the <i>Essential Services Commission Act 2002</i>
Robusto	Robusto Investments Pty Ltd (ABN 75 117 034 545)
RBA	Reserve Bank of Australia
Subsequent varied preservation regulatory determination	The current regulatory determination that applies to Robusto Investments Pty Ltd for the period 1 July 2023 to 30 June 2025
Tribunal	South Australian Civil and Administrative Tribunal

1 Summary

The current regulatory determination that applies to Robusto Investments Pty Ltd (**Robusto**) for the period 1 July 2023 to 30 June 2025, known as the **subsequent varied preservation regulatory determination**, set a methodology to determine residential prices for the period 1 July 2024 to 30 June 2025, rather than setting specific prices for that period.

The Commission has implemented the pricing methodology, in accordance with the terms of the subsequent varied preservation regulatory determination. This document details the non-discretionary, mechanical process undertaken to derive the maximum nominal prices that Robusto can charge.

The key element that has been adjusted for and updated in the methodology is the number and type of customers connected to the Robusto water network.

The Commission sought, reviewed and considered customer invoice information supplied by Robusto in compliance with the reporting requirement introduced in the subsequent varied preservation regulatory determination.

The Commission considers the information regarding customer number and type supplied by Robusto to meet the reporting requirements detailed in the subsequent varied preservation regulatory determination. The updated information was used by the Commission to derive the maximum nominal prices that Robusto can charge residential customers for the period 1 July 2024 to 30 June 2025.

Other parameters in the pricing methodology have previously been set in accordance with the terms of the subsequent varied preservation regulatory determination. This included the expected consumer price index (**CPI**) inflation for 2024-25, the real maximum revenue requirement for 2024-25, consumption per customer for 2024-25, and the apportionment between supply and usage charges.

Using the updated information regarding customer number and type supplied by Robusto, and implementing the pricing methodology in accordance with the terms of the subsequent varied preservation regulatory determination, the maximum nominal prices Robusto can charge for 2024-25 are:

- ▶ a quarterly supply charge of \$98.81
- ▶ a Tier 1 charge of \$4.06 per kL
- ▶ a Tier 2 charge of \$5.80 per kL and
- ▶ a Tier 3 charge of \$6.27 per kL

The maximum nominal prices for 2024-25 are 7 percent higher than those in the previous financial year. The higher prices reflect two factors:

- ▶ CPI inflation is expected to increase by 3.1 percent over the coming year. This expectation was set in accordance with the terms of the subsequent varied preservation regulatory determination.
- ▶ Updated customer invoice information has been supplied by Robusto regarding the number and type of customers connected to its water network. The updated information indicates that fewer customers are connected to, and consuming water from, the Robusto water network than the forecast number of customers submitted by Robusto as part of the subsequent varied

preservation regulatory determination process. This results in higher prices, as the costs of supplying water are spread across a lower number of customers.¹

The Commission observes that information previously supplied by Robusto for the subsequent varied preservation regulatory determination indicated there were 201 customers in July 2023 and Robusto suggested that another 8 residential customers would be connected by September 2023, followed by a material increase in customer connections by 30 June 2024.² However, the updated customer invoice information supplied by Robusto has indicated Robusto's forecasts did not come to pass. Current invoice information for the billing period November 2023 to January 2024 suggests around 201 customers (of which 157 were consuming water).³

The remainder of this explanatory document provides short background information (see Section 2) and also provides technical details regarding the implementation of the pricing methodology (including formula and parameters) (see Section 3).

¹ The process of using available customer invoice information in order to derive the maximum nominal prices for 2024-25 was adopted on the basis that there was uncertainty about when Robusto would begin retailing to new customers. Therefore, the Commission considered it prudent to take an approach that would lower forecast risk and help contain the risk of bill shock in future regulatory periods. The Commission's subsequent varied preservation regulatory determination outlined that, while Robusto expected large increases in customer connections for 2024-25 (subject to licence variations), the outlook was subject to a range of uncertainties. In particular, the size and speed of the expected increase, particularly relative to the historical increases and in light of economic conditions, raised questions as to whether this expected demand would eventuate and in what time frame. For more information, see Essential Services Commission of South Australia, *Robusto Investments Drinking Water Preservation Regulatory Determination: Review Application Decision – Statement of Reasons*, September 2023, pp. 53-58, available at <https://www.escosa.sa.gov.au/ArticleDocuments/22006/20231003-Water-RobustoInvestments-PreservationDetermination-ReviewApplication-StatementOfReasons.pdf.aspx?Embed=Y>.

² Essential Services Commission of South Australia, *Robusto Investments Drinking Water Preservation Regulatory Determination: Review Application Decision – Statement of Reasons*, September 2023, pp. 56-57, 69.

³ The period for which customer invoices were supplied by Robusto to the Commission under the reporting requirement in the subsequent varied preservation regulatory determination.

2 Background

The subsequent varied preservation regulatory determination, which currently applies to Robusto for the period 1 July 2023 to 30 June 2025, was made on 3 October 2023.⁴ It sets out:⁵

- ▶ the maximum total revenue (in real and nominal terms) that Robusto may recover from its residential customers over the period (1 July 2023 to 30 June 2025)
- ▶ the pricing structure (the ratio of the supply charge to the usage charge, and the formula relating to price tiers, customer numbers and consumption) to be used in setting maximum nominal prices for the period 1 July 2023 to 30 June 2025
- ▶ the forecast of water consumption per customer to be used to derive maximum nominal prices for the period 1 July 2023 to 30 June 2025
- ▶ the maximum nominal prices that may be recovered from residential customers for the period 1 July 2023 to 30 June 2024, and
- ▶ the information about customer numbers and connections that would be requested from Robusto (via a reporting requirement) and assessed by the Commission in 2024 in order to derive the maximum nominal prices to be recovered from residential customers for the period 1 July 2024 to 30 June 2025, including provision that:
 - should the customer invoice information supplied by Robusto in 2024 be determined by the Commission to be sufficient for the purpose of deriving prices, then it would derive the maximum nominal prices to apply for the period 1 July 2024 to 30 June 2025 based on that information,⁶ or
 - should the customer invoice information supplied by Robusto in 2024 be determined by the Commission to be materially incomplete, then a set of prescribed 'default' prices would apply.

By way of background, for a comprehensive timeline of previous regulatory determinations applying to Robusto, please see the statement of reasons for the subsequent varied preservation regulatory determination.⁷

⁴ It is noted that on 16 October 2023, under section 32 of the *Essential Services Commission Act 2002*, Robusto lodged an application with the South Australian Civil and Administrative Tribunal (**Tribunal**) for an external review of the regulatory determination made on 3 October 2023. That external review remains before the tribunal in accordance with the *South Australian Civil and Administrative Tribunal Act 2013*.

⁵ Essential Services Commission of South Australia, *Robusto Investments Drinking Water Preservation Regulatory Determination: Review Application Decision – Statement of Reasons*, pp. 1-92. Also, see Essential Services Commission of South Australia, *Robusto Investments - Subsequent determination to vary the preservation regulatory determination made on 29 June 2023*, 3 October 2023, pp. 1-3, available at <https://www.escosa.sa.gov.au/ArticleDocuments/22006/20231003-Water-RobustoInvestments-SubsequentVariedPreservationRegulatoryDetermination.pdf.aspx?Embed=Y> and Essential Services Commission of South Australia, *Robusto Investments – Preservation Regulatory Determination as varied by a subsequent determination on 3 October 2023 (consolidated version)*, Regulatory period 1 July 2023 to 30 June 2025, 3 October 2023, pp. 1-11, available at <https://www.escosa.sa.gov.au/ArticleDocuments/22006/20231003-Water-RobustoInvestments-ConsolidatedVariedPreservationRegulatoryDetermination.pdf.aspx?Embed=Y>.

⁶ As explained in this document, the Commission has determined the customer invoice information sufficient for the purposes of implementing the pricing methodology and has proceeded on this basis.

⁷ Essential Services Commission of South Australia, *Robusto Investments Drinking Water Preservation Regulatory Determination: Review Application Decision – Statement of Reasons*, September 2023, pp. 4-17.

3 Implementation of pricing methodology

3.1 Parameter definitions previously determined⁸

$RR_{12\text{-month}}$ is the real maximum revenue control for the 12-month regulatory period (in real, December 2018 prices)^(a)

$R_{2024-25}$ is the maximum revenue control for the period 1 July 2024 to 30 June 2025 (in nominal terms)

Q is the number of quarters (or part thereof) in a 12-month period

P_s is the quarterly supply charge

$\pi_{\text{Dec18-June21}}$ is the inflation forecast for the period December 2018 to June 2021 as per the varied regulatory determination ^(b)

$\pi_{2021-22}$ is the inflation forecast for 2021-22 as per the varied regulatory determination ^(b)

$\pi_{2022-23}$ is the inflation forecast for 2022-23 as per the further varied regulatory determination ^(a)

$\pi_{2023-24}$ is the inflation forecast for 2023-24 based on the latest annual CPI inflation as forecasted by the RBA^(c)

$\pi_{2024-25}$ is the inflation forecast for 2024-25 based on the latest annual CPI inflation as forecasted by the RBA^(c)

α is the proportion of R recoverable via supply charges

P_{T1} is the tier 1 unit charge (per kL)

P_{T2} is the tier 2 unit charge (per kL)

P_{T3} is the tier 3 unit charge (per kL)

$N\text{-supply}_{2024-2025}$ is the supply customers for 2024-25

$N\text{-usage}_{2024-2025}$ is the usage customers for 2024-25

N is the weighted customer number

λ_{T12} is the price differential between P_{T1} and P_{T2} , as set in percentage terms^(b)

λ_{T23} is the price differential between P_{T2} and P_{T3} , as set in percentage terms^(b)

V_1 is the assumption regarding annual average customer usage, in kL, applicable to Tier 1

V_2 is the assumption regarding annual average customer usage, in kL, applicable to Tier 2

V_3 is the assumption regarding annual average customer usage, in kL, applicable to Tier 3

References

(a) Essential Services Commission of South Australia, *Robusto Investments Pty Ltd: Drinking Water Final Regulatory Determination: Final Further Variation Decision - Statement of Reasons*, p. 17.

(b) Essential Services Commission of South Australia, *Robusto Investments Pty Ltd Drinking Water Final Regulatory Determination – Statement of reasons*, May 2021, p. 104-105, 109-110

⁸ Essential Services Commission of South Australia, *Robusto Investments Drinking Water Preservation Regulatory Determination: Review Application Decision – Statement of Reasons*, September 2023, pp. 83-86, Essential Services Commission of South Australia, *Robusto Investments - Subsequent determination to vary the preservation regulatory determination made on 29 June 2023*, 3 October 2023, pp. 1-3, and Essential Services Commission of South Australia, *Robusto Investments – Preservation Regulatory Determination as varied by a subsequent determination on 3 October 2023 (consolidated version)*, Regulatory period 1 July 2023 to 30 June 2025, 3 October 2023, pp. 4-11.

(c) Reserve Bank of Australia, *Forecasts Table*, Australia, May 2023, available at <https://www.rba.gov.au/publications/smp/2023/may/forecasts.html>.

3.2 Parameters previously determined⁹

$RR_{12\text{-month}} = \$179,736$

$Q = 4$

$\alpha = 32.12849$ percent

$V_1 = 120$

$V_2 = 60$

$V_3 = 0.00$

$\lambda_{T12} = 42.90909$ percent

$\lambda_{T23} = 8.14249$ percent

$\pi_{\text{Dec18-June21}} = 2.7162$ percent

$\pi_{2021-22} = 1.5$ percent

$\pi_{2022-23} = 5.1$ percent

$\pi_{2023-24} = 3.6$ percent

$\pi_{2024-25} = 3.1$ percent

3.3 Parameters updated by the Commission for 2024-25

(Number of customers connected/supplied) $N\text{-supply}_{2024-25} = 201$

(Number of customers consuming water) $N\text{-usage}_{2024-25} = 157$

See Step 1 (below) for more detail.

3.4 Derivation of prices for 2024-25

3.4.1 Step 1

Obtain information from Robusto in early 2024.¹⁰

A summary of the invoice information obtained from Robusto by the Commission is shown in Table 1.

This information has been used to derive information regarding customer number and type.

⁹ Essential Services Commission of South Australia, *Robusto Investments Drinking Water Preservation Regulatory Determination: Review Application Decision – Statement of Reasons*, pp. 83-86, and Essential Services Commission of South Australia, *Robusto Investments – Preservation Regulatory Determination as varied by a subsequent determination on 3 October 2023 (consolidated version)*, pp. 4-11.

¹⁰ The Commission sent a letter to Robusto on 27 March 2024 requesting information. Robusto provided an initial response on 9 April 2024. The Commission sent a follow up letter to Robusto on 15 May 2024 requesting information. Robusto provided updated information on 27 May 2024.

Table 1: Summary of invoice and customer data

	Invoice information
Total complete invoices received (no.)	199
Invoices missing / incomplete (no.)	2
Estimated total applicable invoices (no.)	201
<i>Invoices presented (which have supply and usage) (no.)</i>	<i>157</i>
<i>Invoices presented (which have supply only) (no.)</i>	<i>42</i>
<i>Missing invoices: treated as supply only, based on previous information supplied by Robusto (no.)</i>	<i>2</i>
Total supply customers (no.)	201
Total usage customers (no.)	157

The Commission estimates (see 3.3 above): N-supply₂₀₂₄₋₂₅ as 201 and N-usage₂₀₂₄₋₂₅ as 157.

The Commission estimates customer number and type on the basis of customer invoice information provided by Robusto and any other information available to it.

3.4.2 Step 2

Inflation index = $(1 + \pi_{\text{Dec18-June21}}) \times (1 + \pi_{2021-22}) \times (1 + \pi_{2022-23}) \times (1 + \pi_{2023-24}) \times (1 + \pi_{2024-25}) = (1 + 0.027162) \times (1 + 0.015) \times (1 + 0.051) \times (1 + 0.036) \times (1 + 0.031)$

Substituting in the data and assumptions from above gives the Inflation index = 1.170378

Then, $R_{2024-25} = RR_{12\text{-month}} \times \text{Inflation index} = \$179,736 \times 1.170378$

Substituting in the data and assumptions from above gives $R = \$210,359$

3.4.3 Step 3

$N = \alpha * N\text{-supply}_{2024-25} + (1 - \alpha) * N\text{-usage}_{2024-25}$

Substituting in the data and assumptions from above gives $N = 171$ (N is rounded to the nearest whole number)

3.4.4 Step 4

$P_s = \frac{\alpha R}{QN}$, and substituting in the data and assumptions from above gives, $P_s = \$98.81$

$$P_{T1} = \frac{(1-\alpha)R}{(V_1 + (1+\lambda_{T12})V_2 + (1+\lambda_{T12})(1+\lambda_{T23})V_3)N}$$

$$P_{T2} = (1+\lambda_{T12})P_{T1}$$

$$P_{T3} = (1+\lambda_{T23})P_{T2}$$

Substituting in the data and assumptions gives the following maximum prices for residential customers:

$$P_{T1} = \$4.06$$

$$P_{T2} = \$5.80$$

$$P_{T3} = \$6.27$$

3.4.5 Prices for 2024-25

The maximum nominal prices for the period 1 July 2024 to 30 June 2025, set by the Commission in accordance with the subsequent varied regulatory determination, are provided in Table 2.

The derivation of the prices has been outlined in sections 3.1, 3.2, 3.3 and 3.4 (above).

Table 2: Maximum nominal prices for 1 July 2024 to 30 June 2025

Tariff element	1 July 2024 to 30 June 2025
Quarterly supply charge	\$98.81
Tier 1 charge per kL (0-30kL)	\$4.06
Tier 2 charge per kL (30-130kL)	\$5.80
Tier 3 charge per kL (>130kL)	\$6.27



The Essential Services Commission
Level 1, 151 Pirie Street Adelaide SA 5000
GPO Box 2605 Adelaide SA 5001
T 08 8463 4444

E escosa@escosa.sa.gov.au | W www.escosa.sa.gov.au