



**SUBMISSION TO THE ESSENTIAL SERVICES COMMISSION OF SOUTH
AUSTRALIA**
on the
SA WATER REGULATORY BUSINESS PROPOSAL 2016

COTA SA

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1. INTRODUCTION

COTA SA appreciates the opportunity to provide this submission to the Essential Services Commission of SA (ESCOSA) on SA Water's Regulatory Business Proposal 2016 (RBP).

In addition to our previous submissions, this paper draws on the policy development of COTA SA's policy council, ongoing engagement with our stakeholders, and a public consultation on the SA Water RBP held in Adelaide on 30 September 2015.

COTA SA acknowledges the participation of SA Water and ESCOSA at the September consultation. COTA SA also acknowledges the consumer engagement SA Water has undertaken in the preparation of its RBP.

2. COTA SA AND SOUTH AUSTRALIA'S OLDER POPULATION

COTA SA is the peak body representing older South Australians. Our aim is to advance the rights, needs and interests of all older South Australians.

COTA SA has over 12,000 individual members and 250 seniors' organisations with a combined membership of more than 50,000. We have 80 associate members including aged care providers, local government bodies, health organisations, and other service and educational institutions.

South Australia is home to the second-most aged population in the nation. In 2011, 22.3% of South Australia's population was aged 60 years or over. By 2031, the percentage of those aged 65 years and over is projected to reach 26.5% of the population. Within the broader context of decreased rainfall and upstream demands on the Murray-Darling River system, older South Australians represent an emerging cohort that will bring its own challenges to retail water and sewerage services. We will address some of those challenges in this submission.

3. PRINCIPLES TO INFORM THE DETERMINATION

In January this year, COTA SA provided a submission to ESCOSA on the framework for the SA Water determination for 2016-20 (COTA SA 2015). In that submission, COTA SA requested that ESCOSA pursue the following principles in setting the framework:

- consider the cost-of-living and financial pressures on consumers, and in particular those who are most vulnerable
- recognise water and sewerage services as a public good and a social right
- ensure any framework does not provide for unduly elevated rates of return that allow SA Water to charge customers excessively
- ensure that the rights and well-being of the consumer is protected in light of SA Water's position as a monopoly provider
- take into account diverse preferences, based on consultation including with older people.

This submission will look at specific issues arising from SA Water's RBP. A number of the issues raised relate to pricing, which we understand will be the subject of consultation at a later date.

4. ISSUES FOR FURTHER CONSIDERATION

COST OF LIVING

Cost of living continues to be a key concern for older South Australians, whether they are age pensioners, self-funded retirees, or still in the workforce. Significant numbers of older people are experiencing financial stress as the cost of basic utilities continues to grow. Water and sewerage costs add to this stress.

Around 35.5% of older Australians are categorised as living in poverty (Belardi 2014). The greatest financial stress is experienced by those in the oldest age brackets who are more likely to receive the age pension as the sole source of income. As a result, larger numbers of older people, and particularly older women, are likely to spend their older years in poverty.

Utilities costs make up a higher proportion of the incomes of older people and those on fixed incomes. In 2013, a report for the Productive Ageing Centre found that (Kelly 2013):

- those households in the lowest income group spend around 80% of their income on essentials (including water and sewerage) – those aged 75 years and over make up almost half of these households
- pensioner households spend around 55% of their income on essentials, compared with employed households which spend only 25%.

In its RBP, SA Water expresses commitment to affordable retail water and sewerage prices, in particular keeping prices below the rate of inflation. It proposes to do this through price cuts in 2016-17 of 0.7% for water and 9% for sewerage. Thereafter it proposes that price increases will not go above CPI (estimated at 2.5% per annum) (SA Water 2015).

SA Water estimates the average residential customer will pay \$51 less in 2016-17 (SA Water 2015). In 2019-20, using SA Water's figures, the average customer will pay \$55 more per year for water (around 7% more) and \$10 less for sewerage (around 2% more) than in 2015-16. The overall cost increase in 2019-20 compared with 2015-16, combining water and sewerage costs, will be \$45. The average residential customer in 2019-20 will pay \$1,343 for their combined water and sewerage bill, compared with \$1,298 in 2015-16.

COTA SA supports lower growth in costs to consumers recommended in the RBP, noting the mid to high base on which this growth is predicated. However, expenditure of almost \$26 per week or \$1,343 per year on water and sewerage services will continue to be a strain on many older people, and in particular those on fixed and low incomes.

Our stakeholders have questioned whether a threshold of CPI increase is an economically sound approach, due to the cost of capital for example, and how this may affect those (in many cases workers and casual workers) who are not receiving commensurate pay rises.

COTA SA recommends that ESCOSA consider:

- **whether the CPI threshold proposed by SA Water is based on economically sound principles**
- **how increases based on CPI affect those in the community who are not receiving commensurate increases in their income**

FALLING DEMAND

The demand for water across all segments has declined since 2006-07, as SA Water makes clear (SA Water 2015). SA Water makes the case that this has negatively impacted revenue, in turn putting upward pressure on prices for customers.

COTA SA notes that SA Water retained high levels of revenue during the period of the first determination, in part reflected by the value claimed for its asset base. In April 2014, ESCOSA stated that (ESCOSA 2014b):

SA Water's typical residential water bill (\$873 per year) was the highest amongst comparable Australian utilities in 2012/13. The major reason for this is the high value of SA Water's regulated asset base which drives a high return on investment earned by SA Water.

The result was a 15% growth in SA Water revenue built largely on tariff increases (ESCOSA 2014b). Movements in prices during the period of the first determination – both by SA Water and other Australian utilities – now put SA Water’s prices at around mid-range and its sewerage prices at the bottom of the table. This is good news for consumers.

The ageing demographic will put further downward pressure on demand through:

- smaller family structures
- lower household numbers, including a growth in single-person households (of which older women make up the largest number)
- smaller or downsized dwellings and land sizes
- an increase in shared property arrangements, such as housing units, retirement villages, residential parks, and residential care placements
- an increase in the number of older people living in private rental accommodation and experiencing higher accommodation costs (COTA WA 2009).

COTA SA recommends that ESCOSA consider:

- **the impact of falling demand and set a revenue rate that allows for upgrade and maintenance of SA Water’s important assets while protecting consumers from price pressure.**
- **that revenue be determined as a limit rather than a target so that consumer prices are not manipulated to meet regulated levels of return.**

COMMERCIAL RETURN AND BUSINESS IMPERATIVES

Our stakeholders supported SA Water’s long-term planning within the RBP and acknowledged that investment, upgrades and maintenance are important elements of the proposal. They did not feel they were in a position to comment more fully on the three major investment areas proposed, ie water infrastructure, sewerage infrastructure and information technology, or on the value assigned to each. The proposed efficiency savings of 1% per year (SA Water 2015) is welcome. Ongoing modernisation of SA Water infrastructure and operations is important for the company, consumers and the state.

COTA SA is not in a position to evaluate SA Water’s claims of total unavoidable operating increases in operating expenditure (before savings) of \$68.1 million (SA Water 2015). COTA SA understands ESCOSA will evaluate this figure.

A proportion of the revenue accruing to the SA Government, as the owner of SA Water, is returned to water consumers in the form of concessions. Currently around 20% of water customers receive a concession and around 5,000 are exempted in full or in part from paying water charges (ESCOSA 2014a). Consumers told us they support this use of the funds and on the whole prefer profits going to the government, to be used in the SA economy, rather than into private enterprise.

Consumers are keen to see greater transparency about the level of revenue the state government receives from SA Water and how this revenue is spent by government, in particular if this expenditure falls into general revenue or is dedicated to water- and sewerage-related activity.

COTA SA recommends that ESCOSA consider:

- **the monopoly position SA Water holds in the SA market as provider of an essential service**
- **the low risk level from this monopoly status which means SA Water’s ability to source investment is generally favourable**

SERVICE STANDARDS

Our stakeholders were generally satisfied with the level of service delivered by SA Water. They support local jobs and local operations.

They were less concerned about SA Water's proposal to move from 66 to 18 service standards (SA Water 2015) than that key regulatory and other best-practice standards continue to be measured and improved. Service standards must be framed and measured appropriately to keep SA Water accountable to the people of South Australia.

While our stakeholders were generally satisfied with service quality, they have raised a few areas in which improvements could be made. One stakeholder referred to inefficiencies arising from failure of communication:

They changed my meter three times before contacting me. When they saw the water storage [I had installed] they understood why the meter wasn't registering much water use. Why didn't they talk to me sooner?

Clarity around billing continues to be an issue although IT improvements that modernise billing and services such as leakage reports and responses are most welcome.

Increasing resources for the communication of the SA Water Customer Assist program are supported. Our stakeholders reported poor awareness of the program.

Our stakeholders recommended that SA Water look at its appeals process as well as the process of monitoring and evaluating services. Better communication on these mechanisms is needed.

Metropolitan users are on the whole satisfied with the quality of water provided by SA Water (despite the comments of their interstate relatives). However, the quality of water in some regions is of concern, and in particular the potential impacts on health.

COTA SA recommends that ESCOSA consider:

- **quality improvement by SA Water to its services through efficiencies where these are not used to justify price increases or unreasonable levels of revenue.**
- **quality of water in some regions of SA, particularly problems with salinity in some areas.**

SA WATER CHALLENGES

COTA SA acknowledges SA Water's claims about the operational and network challenges it faces, but believes these are insufficiently unique to support a high allowable revenue claim. For example, the Water Corporation of Western Australia serves a geographic spread of 2.6 million square kilometres and supports an asset base of \$34 billion (WCWA 2014). The Northern Territory's Power and Water Corporation delivers services across 1.3 million square kilometres (PowerWater 2014). In terms of water supply, northern and western Queensland, much of Victoria, and western and south-western Western Australia have all experienced drought and restricted rainfall in recent years (BoM 2015).

The Water Services Association of Australia (WSAA), of which SA Water is a member, claims 58 water utility members across Australia (WSAA 2015). In developing its RBP, SA Water compares itself on a number of criteria (such as annual water and sewerage bills and revenue per kilometer) against 12 'peer' utilities companies across Australia. COTA SA is not in a position to make comment on whether these 12 are genuine peers or why others within the remaining 46 companies (or others outside WSAA membership) would not be more appropriate peers for comparison.

COTA SA recommends that ESCOSA determine:

- **the most appropriate peer utilities companies against which SA Water performance should be compared**
- **whether the asset, water resource, customer base and geographic conditions on which SA Water bases its RBP are appropriate**

ECONOMIC DEVELOPMENT AND BUSINESS SUPPORT

Water is a significant input for the economic activity of South Australia. COTA SA has a role in advocating not only for residential consumers but also for business consumers.

Older South Australians are experiencing changing work patterns, and this change is set to accelerate. There are more older workers every day (ABS 2010). Around one quarter of those aged 65 to 69 years are in the workforce, with a growing percentage moving from fulltime to part-time work (ABS 2010).

A significant proportion of business owners are older. Business owners are generally older than the overall working population, with the median age in South Australia recorded at 48 years, rising to 50 years in regional SA (ABS 2011). This trend is also upward.

COTA SA recommends that ESCOSA consider:

- **the needs of residential consumers on one hand and business owners on the other**
- **the relationship of the RBP to economic development priorities which are of benefit to a broad range of South Australians**

WATER SECURITY

Older South Australians were brought up with the mantra, 'SA is the driest state in the driest continent'. They have lived through successive droughts and water shortages and in the main have a frugal approach to the use of water. They are also concerned about the environmental legacy they will leave their children and grandchildren, particularly in the context of climate change.

Water security is vital, as are policies and incentives for the conservation of water. Older consumers are keen to see rewards for those who conserve water, with incentives to install rainwater tanks and rebates for water-efficient appliances. Our stakeholders say they would be responsive to demand management through pricing mechanisms.

While understanding that SA Water considers smart meters will assist monitoring of water use, our stakeholders were unclear about the economic benefits. We note that ESCOSA has recommended against the installation of individual water meters to group-metered properties and against the mandatory installation of smart meters as the costs currently outweigh the benefits (ESCOSA 2014a).

Our stakeholders expressed support for community and state programs for water harvesting, such as storm water harvesting. They felt that political wrangling between local governments, other levels of government and private enterprise had limited the mechanisms adopted. The establishment of the desalination plant, on the other hand, has provided SA with greater water security than it has had in the past.

COTA SA recommends that ESCOSA consider:

- **encouraging SA Water incentives to conserve water**
- **support for cost effective investment in programs which improve storm water harvesting and water security across the state**
- **service delivery in regional South Australia**

5. CONCLUSION

As outlined in this submission, the second determination should ensure that SA Water can meet its regulatory obligations, perform well as a business, and invest appropriately in infrastructure, services and policy objectives such as water security, economic development and jobs. Our stakeholders recognise the importance of these aims. They also value quality improvement through efficiencies and a slower growth in price increases, recommended in the RBP. While they are generally satisfied with SA Water's current services, they see some areas for improvement.

COTA SA and our stakeholders, however, submit these views with some caution. SA Water's capital and operational proposals for 2016-20 must not be used to justify artificial price hikes or unreasonable levels of revenue. While COTA SA supports lower growth in costs to consumers, high water and sewerage bills will continue to contribute to financial strain for many older South Australians.

To ameliorate some of these concerns, and to meet some of the principles we have recommended – such as social equity, accessibility to service as a public good, water conservation and cost-of-living relief – we call on ESCOSA, in making its second determination, to make the potential price impacts on customers and in particular those experiencing financial stress a central consideration.

For its part, SA Water is encouraged, within its 2016-20 planning, to improve service standards related to billing, communication with customers, public awareness of the customer assist program and its own public engagement program around the RBP, the appeals process, and regional water quality. These changes should be made through efficiencies rather than increased costs for consumers. Service standards must be framed and measured appropriately to keep SA Water accountable to the people of South Australia.

The state government, as owner of SA Water, should provide greater transparency to the South Australian public about what revenue it receives from SA Water and how it is spent.

COTA SA is aware that this determination does not address pricing structures, a subject on which we received considerable feedback from our stakeholders. We will be pleased to provide input into this complex subject when the next pricing consultation commences.

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