



24 August 2012

Mr Stuart Peevor  
Essential Services Commission of South Australia  
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Dear Mr Peevor,

**Re: Proposed Price Regulation for Service Providers other than SA Water**

I write on behalf of the Australian Industry Group (Ai Group) in respect of the July 2012 request for submissions by the Essential Services Commission of South Australia's ('the Commission').

Overall the Discussion Paper outlines a sensible approach to water price regulation, with which Ai Group is broadly comfortable.

With respect to Issue 3.6 (at page 28 of the Discussion paper), we would raise two additional factors to be considered in the Commission's approach to the pricing principles around recovery of capital expenditure:

1. Given the history of water pricing, the principles (and the National Water Initiative from which they are derived) understandably emphasise the need to ensure that investment is sufficient to meet future needs and that prices reflect this. That is absolutely correct.

However, based on experience with regulation of electricity networks, it is also important to ensure that proposed capital investment is efficient as well as sufficient. That requires explicit consideration by both the regulator and regulated entities of the likely level of future demand and of the supply-side and demand-side options for ensuring that needs are met at least cost.

2. It is also important that, in considering the appropriate recovery of capital expenditure, the regulator should base their determination on the actual cost of capital faced by the regulated entity. The water sector involves a mixture of entities owned by the State or by private parties, which will tend to face very different costs of capital.

If these differences are not adequately taken into account, there is a risk that private players are less able to recover their full costs, or alternately that publicly owned entities have an excessive incentive for investment.

Neither of these matters have been specifically addressed in the Commission's Discussion Paper, but are consistent with the principles put forward. Ai Group would hope they will be reflected in the draft and final report and determination.

Ai Group appreciates this opportunity to comment on the Commission's proposed approach for price regulation for water service providers and we look forward to continuing our positive involvement with ESCOSA. Should you have any questions in relation to this matter, please do not hesitate to contact me on (08) 8394 0002.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S. Myatt', with a large, sweeping flourish at the end.

**Stephen Myatt**  
Director – SA Branch  
Australian Industry Group