



THE DISTRICT COUNCIL OF MOUNT BARKER

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Proposed Price Regulation for Service Providers other than SA Water
Essential Services Commission of South Australia
GPO Box 2605
Adelaide 5001

Via Email escosa@escosa.sa.gov.au

Dear Sir/Madam

Thank you for the opportunity to comment on the Discussion Paper 'Proposed Price Regulation for Water and Sewerage Service Providers other than SA Water'.

I am aware that the Local Government Association (LGA) is making a submission on behalf of member Councils and we have seen a draft of that document. This submission aims to support the direction of the LGA's comments and provide further points which are particularly relevant to the District Council of Mt Barker. It makes some general comments about the Commission's proposed approach and addresses a number of the specific issues raised in the Discussion Paper.

General Comments

As you are aware the District Council of Mt Barker is the largest provider of Community Wastewater Management System (CWMS) infrastructure and services in South Australia. In addition to catering for infill development the Council is facing further challenges in potentially providing sewerage infrastructure and services to the additional 26,000 people (in 10,000 residential properties) expected to move to our area over the next 20 years following the rezoning of land in late 2011 by the state government. You would be aware that the state government rezoned land for this level of residential development without any plans for the provision of sewerage infrastructure and services. This is one of a number of shortcomings of the state government in planning for development in our area which the Council is having to address at significant cost in time and money.

I raise the matter of the planning shortcomings as it reinforces the point made in the Discussion Paper that Councils provide sewerage infrastructure and services as a 'matter of necessity' rather than a business opportunity to raise revenue. These planning shortcomings are not from the distant past; they are contemporary failings of state government decision making as has been publicly acknowledged.

Recent changes via the Water Industry Act provide greater opportunity for developers to utilise private wastewater systems. However this in turn creates a higher degree of uncertainty for future Council revenue streams and increases risk and hence the cost of finance for large scale capital investment making it more difficult for Council to effectively budget for the future expansion of the CWMS network.

Current legislative restrictions on the charging mechanism by Councils of recurrent CWMS costs only permits cost recovery (i.e. a not for profit service provider) as distinct from private sector operators who would make adjustment to their charges for risk.

As indicated several times in the Discussion Paper the Commission's proposals for licensing of water activities are very different to arrangements in place for most, if not all Councils in the State. They represent a move to quite sophisticated public policy principles that would be more easily met by large, well-resourced organisations that have water as their single or primary area of activity (though I suspect those organisations would also be challenged).

Water activities represent a relatively small part of a Council's business. For the District Council of Mt Barker CWMS provides 10% of total revenue and consumes 5% of our staff resources. The new licensing requirements will require a disproportionate amount of our time and resources to fully understand, implement, adjust and monitor.

Timelines

On the matter of time Council is very concerned at the timeframe set out on page 5 of the Discussion Paper and the resource capacity of this organisation to respond to your documents for consultation, let alone implement the changes required.

Sufficient time needs to be allowed for Councils to adapt to the new licensing arrangements. Elected members and staff of Councils will need to become fully informed of the new licensing arrangements and their implications. This will take time and resources and will compete with other priority matters being dealt with by Councils. As indicated above the licensing proposals are based on sophisticated public policy settings whereas CWMS pricing has generally been determined through much more simple 'user pays' concepts.

Our view is that the Commission has an important role to play in educating Councils about the new policy settings. Importantly, ESCOSA will have to be flexible to adjust its approach as it gains greater understanding of the issues for Councils. There needs to be a collaborative approach between ESCOSA and Councils around the form, content and implementation of the new licensing arrangements.

Timelines are thus very important. In our view the public consultation periods are too short, particularly having a four week period for consultation on the Draft Report and Draft Price Determination. We suggest that consultation should run from 12 October 2012 until mid December 2012. While this will affect the commencement date of the Initial Price Regulation period there are good reasons for this to happen as discussed in our response to issue 3.7 below.

Costs and Benefits

Council welcomes the comments in the Executive Summary of the Discussion Paper reflecting a degree of flexibility by the Commission in implementing the new regulatory regime including 'appropriate transitioning arrangements occur' and ensuring 'that the benefits of regulation outweigh any associated costs'. These comments are very important and need to be reflected in the Commission's planning and timelines. We suggest that part of the planning process involve careful analysis of the type and duration of transitional arrangements required and the likely costs and benefits of the new regulatory regime. It is not evident that those sentiments from the Executive Summary have been fully carried through to the body of the Discussion Paper.

Specific Issues Raised

Issue 3.2

The advantages of the Council's current pricing practices for CWMS include simplicity, transparency and equity on the basis of 'user pays'. Limitations include lack of legislative clarity about charging developers for required augmentation to the system, both treatment plant and reticulation network capacity upgrading.

Issue 3.3

The advantages of the Council's current pricing practices for recycled water include flexibility, consideration of other policy objectives (economic development, environmental) and recognition of contributions made by users in extending the distribution network.

Issue 3.7

There is some confusion in this part of the Discussion Paper as on page 28 it says that the NWI principles in relation to capital expenditure do not apply to sewerage. The first dot-point of issue 3.7 then suggests they do. In any event there is a very loose alignment between the principles listed and our current practice.

Council's response to dot-point 2 is that 1 July 2013 is too soon to apply the principles for sewerage. There is a practical element of the timing of Council budget preparation and community engagement. As you would be aware Councils are required to consult with their communities and ratepayers on their draft annual budgets and business plans. Introducing a major change to the basis of charging for CWMS will take time that will not be available before 1 July 2013.

In response to the third dot-point we suggest that the Commission needs to consider the complexity of the principles against the size of Councils' sewerage activities, the resources and time required to implement them, and allow a transition period of five years for their consideration, refinement and implementation.

Issue 3.8

Our comments about issue 3.7 also apply to issue 3.8.

A further and important matter to be considered is that the organisations providing sewerage infrastructure and services may not be the same as those providing recycled water infrastructure and services. The Discussion Paper could be interpreted as expecting there to always be vertical integration of sewerage and recycled water activities when this will not always be the case.

In turn this leads to policy questions regarding who should pay particularly where use/disposal is not able to occur on a cost recovery basis. For example circumstances may dictate that a Council gives treated waste water away or sells it below cost to achieve environmental or economic objectives or EPA licensing compliance. In these instances the price charged to the producers of the waste should reflect full product life-cycle.

Issue 3.11

Given the scale of changes to be implemented to comply with the new regulatory regime Council suggests that there be some flexibility built into the duration of the initial price

determination. That is, set a duration of (say) five years for the determination with a review of its effectiveness at (say) three years.

Matters the Commission should consider when reviewing the effectiveness of the pricing principles include whether the cost of regulation is less than the benefit to consumers; the extent to which additional policy objectives (e.g. economic and environmental) are being met; and whether there are any unintended impacts (e.g. less attention being paid to other aspects of Councils' roles).

Issue 4.1

The public disclosure of a pricing schedule and pricing policy statement are sufficient for disclosure of information to the public.

Issue 4.3

The proposed price monitoring approaches appear appropriate but there should be discussions with Councils involved in mandated water recycling schemes and provision of drinking water to test the consumption profiles listed.

Issue 4.4

Based on our current level of knowledge we consider the proposed approach to public reporting is appropriate and that an ad hoc price monitoring approach is also appropriate.

Yours sincerely



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Copy to the Local Government Association of SA, attention Mr David Hitchcock