



## **COUNCIL ON THE AGEING, SOUTH AUSTRALIA**

### **SUBMISSION to the ESSENTIAL SERVICES COMMISSION OF SOUTH AUSTRALIA on the SA WATER PRICE DETERMINATION 2016-20**

22 January 2015

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#### **1. INTRODUCTION**

COTA SA appreciates the opportunity to provide this submission to the Essential Services Commission of SA (ESCOSA) on the SA Water price determination for 2016-20.

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

COTA SA has almost 14,000 individual members and 250 seniors' organisations with a combined membership of more than 60,000. We have 80 associate members including aged care providers, local government bodies, health units, and other service and educational institutions.

One of the most fundamental changes South Australia faces in the 21st century is the ageing of the population. South Australia is the second most rapidly ageing state or territory in Australia, ranking only after Tasmania. The 2011 census showed that 22.3 per cent of South Australia's population of 1.6 million people were 60-plus years of age. By 2031, it is projected that 26.5 per cent of our population will be aged over 65 years. That's more than one in four.

Older South Australians therefore make up a significant and growing proportion of consumers of water and sewerage services.

#### **2. SETTING THE RATE OF RETURN**

As ESCOSA acknowledges, various frameworks may be used to determine SA Water's revenue for the period 2016-20. Rather than entering into an economic debate about the best methodology, COTA SA encourages ESCOSA to consider the following principles and developments as it determines how it will proceed.

## 2.1 Consideration of cost-of-living pressures

In keeping with its charter to 'protect the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services', ESCOSA must **consider the cost-of-living and financial pressures on consumers, and in particular those who are most vulnerable.**

Cost of living is a key concern for older South Australians, whether they are age pensioners, self-funded retirees, or still in the workforce. We hear daily about the difficulty people are having in meeting their everyday primary and essential expenses.

In seven community engagement forums COTA SA held in 2014, the rising cost of electricity, water and housing was a recurring theme. Consumers consistently told us about financial stress. As one person said: 'I cringe every time I get a bill in the post.'

Utilities costs make up a higher proportion of the incomes of older people and those on fixed incomes:

- In an October 2013 report, the Productive Ageing Centre found that those households in the lowest income group spent around 80% of their income on essentials (including water and sewerage). Those aged 75 years and over made up almost half of these households. Renters, single and unemployed people also made up a large proportion of this cohort.
- Pensioner households spend around 55% of their income on essentials, compared with employed households which spend only 25%.

The 2014 unilateral withdrawal of the Australian government from the National Partnership Agreement on Certain Concessions for Pensions Concession Card and Seniors Card Holders will see further pressure on pensioner and seniors' budgets:

- The South Australian government has made up this \$30 million shortfall until 30 June 2015 and will continue to fund its portion of concessions (applied to energy, water and sewerage, and transport) after this date. This is a welcome decision.
- However, the discontinuation of council rate concessions from 1 July 2015 will see some consumers up to \$200 per year worse off, which will put extra strain on paying for other essentials, including water and sewerage.

The challenges facing the state economy, including a 6.5% unemployment rate in December 2014 (the second highest in the country), will see a further increase in financial hardship across the state. In particular for those older South Australian's who now need to remain in the workforce longer due to factors such as the retirement age extended and the ongoing depreciation of superannuation funds.

## 2.2 Recognition of public good

ESCOSA should use a rate-of-return framework that **recognises water and sewerage services as a public good and a social right.**

Water and sewerage services are not merely utilities: they are public goods and human rights, as recognised in the UN's *General Comment No 15 on the Right to Water* and the *Statement on Sanitation*.

Clean, potable water is required for human health, hygiene and wellbeing. Similarly, sewerage services are an essential element in public health. All citizens must have safe, good quality drinking water and efficient sanitation now and into the future. Affordability, accessibility and reliability are keys to ensuring this happens.

### 2.3 Reasonable levels of return

ESCOSA should **ensure any framework does not result in unduly elevated rates of return leading to excessive charges to customers.**

A general rise in utilities prices has compounded cost-of-living pressures:

- Nationally, the biggest price increase in the five years from 2008-13 was for electricity, which rose by 83% – more than six times the overall rate of inflation.
- Other non-discretionary (essential) items, such as water, gas, insurance, medical services, and rates, rose by more than double the inflation rate.

In South Australia, SA Water's high rate of return and the prices it has charged (made possible by this rate) have seen significant pressure on consumers. In April 2014, ESCOSA found that:

'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.

In part, these high costs derive from an overly generous estimation of depreciation, replacement needs, and therefore capital investment. Investment in an essential service is vital, but it must be clearly justified and clearly targeted.

At the same time, the high costs SA consumers have paid are at odds with SA Water's lowest operating costs per property connection compared with comparable Australian utilities.

The previous determination has, therefore, failed to protect consumers from unwarranted cost increases.

### 2.4 Reflection of SA Water's monopoly position

In determining a rate of return for SA Water, ESCOSA should use a framework that as closely as possible **reflects SA Water's position as a monopoly provider** in the South Australian market.

Accounting for 99% of drinking water and 87% of sewerage connections, SA Water is correctly described as a monopoly business within South Australia. Moreover, it provides essential rather than discretionary services. As such, its level of risk is relatively low and its ability to source investment is generally favorable, however it should not be at the expense of the consumer losing out financially.

### 2.5 Consideration of consumer preferences

The framework used for determining SA Water's rate of return should **take into account multi-faceted consumer preferences, based on consultation.**

Consumer preferences are multi-faceted. Consumers understand trade-offs where these are reasonable, transparent and in the public interest.

**Cost:** Consumers do not want an either/or approach on cost. For example, they do not expect to receive stable, predictable prices OR the lowest possible price. They understand that a calculation which takes account of both principles may deliver the best outcome. Certainly, consumers do not want to have stable prices at a premium and at the expense of lowest costs. Consumers also seek transparency on costing.

**Service:** Consumers want a service that is reliable, responsive and accessible. They understand that this comes at some cost. They also understand the need for cross-subsidies when these deliver equitable essential services to all – provided these are reasonable.

**Economy and business:** In addition to their residential usage, older South Australians also consume water and sewerage services as clients of service providers, employers, employees and business owners:

- Nationally, 18% of the workforce is aged 55 to 69 years, compared with 9% in 1997, doubling in that period.
- Currently, 38% of the state's workers are baby boomers, with this figure growing daily.
- With the retirement age rising first to 67 and then 70 and with life expectancy increasing, the participation rate of older workers is expected to continue its upward trend.

Utilities which deliver quality for service at genuine value for money support businesses and contribute to economic development.

**Environment:** Our stakeholders continue to express their concern for the state's precious water resources and on the whole will accept pricing and activities that encourage the efficient use of water – again, if these are both reasonable and transparent.

### 3. SUMMARY

COTA SA urges ESCOSA, when determining its framework for setting SA Water's rate of return, to adhere to the following principles:

- 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 result in unduly elevated rates of return that allow SA Water to charge customers excessively;
- reflect SA Water's position as a monopoly provider and not to use this position at the detriment of the consumer; and
- take into account multi-faceted consumer preferences, based on consultation.

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#### COTA SA

16 Hutt Street  
Adelaide SA 5000  
(08) 8232 0422  
[www.cotasa.org.au](http://www.cotasa.org.au)

Authorised by:  
Rosetta Rosa  
General Manager  
[rrosa@cotasa.org.au](mailto:rrosa@cotasa.org.au)  
(08) 8232 0422

Prepared by:  
Jessie Byrne  
Policy Manager  
[jbyrne@cotasa.org.au](mailto:jbyrne@cotasa.org.au)  
(08) 8224 5527