



# CONSUMERS SA

[CONSUMERS' ASSOCIATION OF SOUTH AUSTRALIA INC.]

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Mr. Con Carellas  
Essential Services Commission of South Australia  
151 Pirie Street  
ADELAIDE SA 5000

(by email)

27 January 2015

Dear Mr. Carellas

## **DRAFT REPORT ON SA WATER REGULATORY RATE OF RETURN 2016 – 2020**

Thank you for giving the Consumers Association of South Australia (Consumers SA) an extended opportunity to comment on ESCOSA's draft report on the calculation of SA Water's regulatory rate of return for 2016 - 20.

Consumers SA is the consumers' voice in South Australia. It is a community based, non-profit organisation that represents consumers' interests, encourages the dissemination of information on issues affecting consumers, provides a forum for discussion of those issues and lobbies on them to all levels of government.

Release of the draft report in November, together with the Christmas break and the fact that the Association has not yet had its first meeting for 2015 puts us at a disadvantage in offering a detailed opinion on the report. More importantly, Consumers SA does not have available to it the professional expertise required to properly analyze and comment in detail on the matters set out in this very technical report. Therefore, rather than offering an opinion on each particular parameter, we will keep our remarks more general – always bearing in mind that the key focus of our work is protecting and advancing the interests of consumers.

The approach taken by ESCOSA necessarily focuses on SA Water itself: its operations and finances over the next regulatory period. However, as the draft report notes, in undertaking its regulatory functions, the Commission's primary objective is the "protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services."

As a consumer group, Consumers SA is concerned that whatever decision the Commission makes does not adversely affect consumers. Unfortunately there are indications throughout the draft report that they will be adversely affected.

At its most recent meeting, ESCOSA's Community Advisory Committee was asked whether consumers would prefer stable, predictable prices or the lowest possible prices. Consumers SA believes that there is, in fact, no such thing as 'predictable' water pricing - as evidenced by the price hike that has occurred in the years since the desalination plant was planned and built. Despite lowering their water use substantially during the drought, consumers were hit with substantial rises in sewerage and fixed charges so that revenue would not fall.

Consumers look for the lowest possible, stable, prices from efficiently operating utilities. They should not be placed in the position where they are subsidising a lazy or inefficient entity's losses. Nor, especially in the case of a monopoly, should consumers be contributing to excessive profits - beyond what is necessary for the entity to do its job efficiently, i.e. covering the usual costs of doing business, maintaining sustainable investment in infrastructure and providing a reasonable return to its shareholder(s).

Consumers have signaled that they do not want increasing water bill shocks but, if prices must rise, then any increases should take place incrementally and over a long time frame. Large and sudden increases in water bills are not supported.

This is all the more important with the government's proposal to pay a lump sum each quarter to those people who qualify for rebates of all kinds. There is some concern that disadvantaged people may spend this larger amount of money on whatever is most pressing at the time, rather than applying it in proportion to their various bills - as the government apparently intends.

As explained to the Community Advisory Committee, the key principles themselves make no mention of the need to consider the effect of the determination on consumers, although a recent presentation to the Committee acknowledged that, unless the right incentives are used to determine what SA Water should earn, the cost to consumers would be too high.

As the draft report presently stands, it appears that the low input proposal is the best scenario - providing it does not prove to be detrimental to consumers. They are facing increasing costs from all utilities, not just SA Water. However, Consumers SA is also desirous of knowing what SA Water's proposal to ESCOSA is when it becomes available, as that may influence our final view.

As we understand matters, ESCOSA sets SA Water's allowable revenue based on:

- its operating costs
- its return on actual investment in capital
- an allowance to cover financing costs and returns on investments.

The first two parameters are reasonably stable and are driven by SA Water's actual activities but the third element, according to SA Water, is based on ESCOSA's assumptions and calculations and not by SA Water's actual circumstances and costs.

As we understand the situation, approximately 40% of the average water bill covers financing costs. Since 2001 underlying market rates have varied between 2.7% and 6.8% and these fluctuations can cause increases or decreases in water bills of up to 30% (although decreases are highly unlikely). This would certainly cause bill shock. Consumers SA believes that it would be more useful and accurate to base this element of the rate of return on SA Water's actual figures from the previous regulatory period, allowing for the CPI increase and a small adjustment for efficiency and the cost of providing new services.

Once again, we thank you for the opportunity to comment on the draft report.

Yours sincerely



Ray Dennis  
President, Consumers SA