

WATER PLANNING AND MANAGEMENT COSTS

Issues Paper No. 4

Inquiry into the reform of SA Water's drinking water and sewerage prices

August 2013



REQUEST FOR SUBMISSIONS

The Essential Services Commission of SA (**the Commission**) invites written submissions from all members of the community in relation to the issues raised in this Issues Paper. Written comments should be provided by **5.00 p.m., Friday 8 November 2013**. It is highly desirable for an electronic copy of the submission to accompany any written submission.

It is Commission's policy to make all submissions publicly available via its website (www.escosa.sa.gov.au), except where a submission either wholly or partly contains confidential or commercially sensitive information provided on a confidential basis and appropriate prior notice has been given.

The Commission may also exercise its discretion not to exhibit any submission based on their length or content (for example containing material that is defamatory, offensive or in breach of any law).

Responses to this paper should be directed to:

Water Planning and Management Costs - Inquiry into the reform of SA Water's drinking water and sewerage prices

Essential Services Commission of South Australia
GPO Box 2605
Adelaide SA 5001

Telephone: (08) 8463 4444
Facsimile: (08) 8463 4449
Freecall: 1800 633 592 (SA and mobiles only)
E-mail: escosa@escosa.sa.gov.au
Website: www.escosa.sa.gov.au

Contact Officers: Stuart Peevor

The Essential Services Commission of South Australia is the independent economic regulator of the electricity, gas, ports, rail and water industries in South Australia. 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*. For more information, please visit www.escosa.sa.gov.au.

THE ISSUE

The supply of water and sewerage services can impose costs or benefits on others (including the environment), which may not be reflected in prices charged for them.

Economists describe these costs or benefits as 'externalities'. In some instances pricing of externalities is important in driving economically efficient consumption behaviours.

Promoting greater economic efficiency is considered by the Commission to be consistent with the long term interests of consumers.

As part of its inquiry into the reform of SA Water's drinking water and sewerage prices, the Essential Services Commission of South Australia (**Commission**) is reviewing the pricing of one significant externality – water planning and management (**WPM**) costs.

People are strongly encouraged to read Issues Paper 1, accessible [here](#), which describes the context and objectives of this inquiry.

CURRENT PRACTICE

Externalities and full cost recovery

In 2004, Australian States and Territories signed the intergovernmental agreement for a *National Water Initiative (NWI)*. In Paragraph 73, the parties agreed to:

1. *Continue to manage environmental externalities through a range of regulatory measures (such as through setting extraction limits in water management plans and by specifying the conditions for the use of water in water use licences);*
2. *Continue to examine the feasibility of using market-based mechanisms such as pricing to account for positive and negative environmental externalities associated with water use; and*
3. *Implement pricing that includes externalities where found to be feasible.*

However, progress in implementing externality pricing across Australia has generally been limited.¹

Externalities can arise from the following SA Water activities:

- ▲ water extraction from rivers and aquifers
- ▲ the development and operation of water-related infrastructure
- ▲ the transmission and distribution of water, sewerage and stormwater
- ▲ water use and reuse
- ▲ water and sewerage treatment
- ▲ wastewater disposal to sewerage system

They may result in negative impacts (e.g. pollution to the environment) or positive impacts (e.g. public health benefits).

In most cases, externalities are being managed by governments through mechanisms or policies² including:

- ▲ discharge licences and recycling targets
- ▲ property rights that define the owner of the cost or benefit (e.g. tradeable water entitlements)
- ▲ public education
- ▲ grants or rebates for direct action.³

Externalities and water planning and management costs

In 2007, an NWI Steering Group made a clear distinction between externality charges and charges to recover the cost of water planning and management activities.

WPM activities include, for example:

- ▲ development, implementation and review of water resource plans

¹ Frontier Economics (2011) *Externality pricing in the Australian water sector, Waterlines report, National Water Commission, Canberra, p.vii.*

² National Water Commission (NWC)(2011) *The National Water Initiative - securing Australia's water future: 2011 assessment, p.87, available at http://nwc.gov.au/_data/assets/pdf_file/0018/8244/2011-BiennialAssessment-full_report.pdf.*

³ Frontier Economics (2011), *Externality pricing in the Australian water sector, Waterlines report, National Water Commission, Canberra, p.10.*

- ▲ environmental and ecosystem management planning
- ▲ measures to improve water use, such as water efficiency programs.

Across the Murray Darling Basin, governments currently use a variety of charges to fund or recover the costs of WPM activities. These include:

- ▲ fees and charges for the issuing of water access rights and other permits
- ▲ service/transaction fees (e.g. application for trade or transfer of a water access entitlement)
- ▲ charges (often in the form of a levy) that fund multiple activities.⁴

SA Water currently makes contributions to the Department of Environment, Water and Natural Resources (**DEWNR**), at the direction of the Minister for Water, to “support water planning and management activities required for the implementation of the NWI and the SA Government’s *Water for Good Plan*.”⁵ For the period 2013-14 to 2015-16, these charges will total \$51.4m (equating to approximately \$78 for each water customer across the three years).

Most water customers also pay the *Save the River Murray Levy* which is collected from both residential and non-residential customers to be spent on certain River Murray-related activities in accordance with the *Water Industry Act 2012*. The estimated cost of these activities for 2013-14 is \$26.1m⁶ (approximately \$40 for each water customer per year).

⁴ Australian Competition and Consumer Commission (ACCC)(2010) *A guide to the Water Charge (Planning and Management Information) Rules 2010*, p.11, accessible at [http://transition.accc.gov.au/content/item.phtml?itemId=939387&nodeId=2a4a17db714c029a856b5a387ea16da1&fn=A%20guide%20to%20the%20Water%20Charge%20\(Planning%20and%20Management%20Information\)%20Rules%202010.pdf](http://transition.accc.gov.au/content/item.phtml?itemId=939387&nodeId=2a4a17db714c029a856b5a387ea16da1&fn=A%20guide%20to%20the%20Water%20Charge%20(Planning%20and%20Management%20Information)%20Rules%202010.pdf).

⁵ Refer to the Ministerial Direction provided to SA Water available at [http://www.escosa.sa.gov.au/library/130525-Appendix D-MinisterialDirectionToSAWaterSection6.pdf](http://www.escosa.sa.gov.au/library/130525-Appendix-D-MinisterialDirectionToSAWaterSection6.pdf).

⁶ Refer to <http://www.environment.sa.gov.au/managing->

POSSIBLE APPROACHES AND OPPORTUNITIES FOR CHANGE

Externalities

Nationally, there is a view that the evaluation of urban water externalities needs to be improved, including determination of costs and benefits, so that policymakers can make informed decisions about how to best manage them.⁷ However, they may be best addressed by governments and policymakers, through environmental regulation, rather than by SA Water through pricing.

For example, the National Water Commission (**NWC**) has recommended that the state and territory governments should transparently and rigorously determine:

- ▲ externalities of concern to the community
- ▲ the party with accountability for each externality
- ▲ the effectiveness of existing and alternative approaches (including pricing) for managing the externality.⁸

Water planning and management costs

There is potential for improved pricing and recovery of efficient costs of WPM activities to be an alternative to externality pricing.⁹

The Commission has previously raised concerns about the way that SA Water is currently charged for its WPM activities (by direction from the Minister for Water).¹⁰ Because the charge does not include details about the way these costs are

[natural-resources/river-murray/water-charges-and-how-they-are-spent/save-the-river-murray-levy](http://www.environment.sa.gov.au/managing-natural-resources/river-murray/water-charges-and-how-they-are-spent/save-the-river-murray-levy).

⁷ Frontier Economics (2011), *Externality pricing in the Australian water sector, Waterlines report, National Water Commission*, Canberra, p.ix.

⁸ Refer to <http://www.environment.sa.gov.au/managing-natural-resources/river-murray/water-charges-and-how-they-are-spent/save-the-river-murray-levy>.

⁹ Frontier Economics (2011), *Externality pricing in the Australian water sector, Waterlines report, National Water Commission*, Canberra, p.11.

¹⁰ ESCOSA, *Determination of SA Water's Drinking Water and Sewerage Revenue 2013/14 - 2015/16 – Final*, May 2013, available at <http://www.escosa.sa.gov.au/Projects/ProjectDetails.aspx?id=186>.

calculated or applied, the Commission cannot determine whether they are efficient – nor can it determine whether they provide SA Water and its customers with appropriate price signals and incentives to change behaviour. In other words, this lack of transparency dilutes signals to water users about how these planning and management costs might change their own water-using activities.¹¹

The Commission notes that the *NWI Pricing Principles* provides guidance about the purpose, collection and administration of water planning and management fees and activities. Under these principles, where costs are recoverable from water users, they are to be “tested for cost-effectiveness by an independent party”.

There is no independent oversight of these charges in South Australia. In New South Wales, the Independent Pricing and Regulatory Tribunal (**IPART**) determines prices for WPM charges for water retailers¹². In Western Australia, the Economic Regulation Authority (**WA ERA**) has also conducted an inquiry into the setting of these charges.¹³

Similarly, under the *Water Act 2007* (Commonwealth), the Australian Competition and Consumer Commission (**ACCC**) has developed rules for the setting and reporting of WPM-related charges within the Murray Darling Basin. Rule 5(2) of the *Water Charge (Planning and Management Information) Rules 2010* requires certain information to be published by the ‘charge setter’ to enable a person paying a charge to understand the amount they must pay,

¹¹ Frontier Economics (2011), *Externality pricing in the Australian water sector, Waterlines report, National Water Commission*, Canberra, p.11.

¹² For example, refer to http://www.ipart.nsw.gov.au/files/9bd18571-ddf9-4495-93fd-9f8000c0bd51/Determination_-_Review_of_prices_for_the_Water_Administration_Ministerial_Corporation_-_February_2011_-_Website_Document.pdf.

¹³ In 2011, the WA ERA recommended a structure for the recovery of these costs in its *Inquiry into Water Resource Management and Planning Charges* <http://www.erawa.com.au/cproot/9476/2/20110329%20D62487%20Final%20Report%20-%20Inquiry%20into%20Water%20Resource%20Management%20and%20Planning%20Charges.PDF>.

and the basis on which the charge is calculated (refer to Appendix 1).

Although DEWNR does publish some information in relation to certain WPM activities¹⁴ this information is limited in detail, and does not specifically identify the costs recovered from SA Water.

The Commission’s limitations

The Commission acknowledges that there is still much work to do in the pricing of externalities, and agrees with the NWC that this will involve governments first determining:

- ▲ externalities of concern to the community
- ▲ the party responsible for addressing each externality
- ▲ the effectiveness of existing and alternative management approaches (including externality pricing).

The Commission suggests that, until such work is done, a comprehensive review of all externalities is beyond the scope of its Inquiry. Instead, it will limit the focus of this Inquiry to the water planning and management costs that are recovered through SA Water’s customers.

The Commission will, of course, consider externalities as they impact the pricing reform of sewerage services¹⁵ and water tariffs¹⁶ to the extent that they are identifiable and quantifiable.

QUESTIONS

The Commission seeks the views of interested stakeholders on the above matters and, in particular, in relation to the following:

¹⁴ DEWNR, Murray-Darling Basin Regulated Water Charges, June 2013, available at <http://www.environment.sa.gov.au/managing-natural-resources/river-murray/water-charges-and-how-they-are-spent>.

¹⁵ Sewerage, Trade Waste and Property-based Charging Issues Paper accessible here: http://www.escosa.sa.gov.au/library/130829-WaterPricingInquiry-IssuesPaper_3-SewerageTrade-WastePropertyBasedCharging.pdf

¹⁶ Water Tariffs Issues Paper accessible here: http://www.escosa.sa.gov.au/library/130829-WaterPricingInquiry-IssuesPaper_2-WaterPricing.pdf

Q: What are the benefits and shortcomings of the current water planning and management costs framework as it relates to SA Water? Are there any better ways of achieving the same outcome?

for consultation, subscribe at
<http://www.escosa.sa.gov.au/subscribe.aspx>.

Q: Should SA Water be given the opportunity to control its costs for water planning and management impacts? For example, should it be able to undertake activities that offset these costs?

Q: Should water planning and management costs be region specific?

Q: How does SA Water's water planning and management charges compare with others (e.g. other River Murray extractors)?

Q: Are there other matters that the Commission should consider as a part of this Inquiry?

FURTHER INFORMATION

Any queries relating to this consultation should be directed to:

▲ Stuart Peavor, Manager, Pricing & Access

If you would like to keep up to date with the Commission's activities and the release of papers

APPENDIX 1: ACCC RULES RELATING TO WATER PLANNING AND MANAGEMENT CHARGING

Rule 5(2) of the ACCC water planning and management charging rules, requires the following information to be published.

- ▲ the name or a description of the regulated charge
- ▲ the amount of the regulated charge (whether expressed as a dollar amount or as fee units) or details of rates, fixed and variable components and all other details necessary to determine the amount
- ▲ the legislative, contractual or other authority for the regulated charge
- ▲ a description of the process applied in determining the regulated charge including—
 - the cost allocation principles; and
 - whether the regulated charge has been the subject of consultation, a review or audit and, if it has, a description of the process of the consultation, review or audit and a summary of its outcome
- ▲ the class of persons by whom the regulated charge is payable
- ▲ the person to whom or agency to which the regulated charge is payable
- ▲ when the regulated charge is payable and, if payable by instalments, the number of instalments and intervals at which they are payable
- ▲ if applicable, the water resource, catchment or district, and the water resource plan or other plan, to which the regulated charge relates
- ▲ if applicable, the class of water access right, water delivery right or irrigation right to which the regulated charge relates
- ▲ a description of the water planning and water management activity or activities to which the regulated charge relates including, in relation to each activity:
 - the financial year or other period during which the activity is being, or is to be, carried out
 - the actual or estimated operating, capital and corporate services costs of the activity in respect of the financial year or other period
 - whether the costs of the activity have been the subject of consultation or a review or audit
 - the relationship between the costs of the activity and the calculation of the regulated charge
- ▲ any other information the person determining the charge considers necessary or desirable to explain the regulated charge¹⁷.

¹⁷ ACCC (2010) *A guide to the Water Charge (Planning and Management Information) Rules 2010*, p.21-22.



The Essential Services Commission of South Australia

Level 1, 151 Pirie Street Adelaide SA 5000

GPO Box 2605 Adelaide SA 5001

T 08 8463 4444 | E escosa@escosa.sa.gov.au | W www.escosa.sa.gov.au

