

8 November 2013



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## **RE: Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform**

Dear Nathan,

The Conservation Council of South Australia appreciates the opportunity to comment on the consultation package regarding reforms that could be made to SA Water's drinking water and sewerage prices.

Conservation Council SA is an independent, non-profit and strictly non-party political organisation representing around 50 of South Australia's environment and conservation organisations and their members. Conservation Council SA has developed a comprehensive view of environment policy in *South Australia in a Changing Climate: A Blueprint for a Sustainable Future*<sup>1</sup>. This document sets out, at a strategic level, policy positions in six key environmental areas, including water issues.

SA Water's activities are now covered under an economic regulatory framework which has narrow objectives in relation to environment and sustainability issues. This results in constraints on maintaining SA Water's environmental performance in the many aspects of their work that are not mandated under law or agreements.

The SA Water Charter 2010 requires SA Water to "operate in a sustainable manner". Yet there is a lack of defined sustainability or environmental performance standards agreed with Government that guide SA Water, or inform the community on how SA Water would operate in a sustainable manner. For example, in the area of standards for weed and pest control, legal requirements do not specify the level of control required on land parcels under SA Water control, and there is no agreed standard with government on the level of pest and weed control that will be maintained across these significant landholdings.

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<sup>1</sup> <http://www.conservationsa.org.au/blueprint.html>

There are however some aspects of pricing covered in three of the discussion papers that we wish to comment on. We support reforms that provide an increased incentive for customer efforts to reduce their consumption and related environmental, energy and greenhouse impacts associated with every litre of water consumed.

### **Long term interests of consumers**

There is tendency for economic regulators to interpret "long term interests of consumers" in a narrow manner that reflects only aspects such as 'efficient cost recovery' and 'true cost of their consumption'. This does not reflect the broader long term interests of customers such as environmental protection and contributing to Natural Resource Management programs to restore environments. These long term interests of customers should also be acknowledged in an open and transparent way, even if ESCOSA sees this integrated approach being beyond their jurisdiction to regulate.

For example, should the investment in weed and pest management be too low, and new weeds and pests are becoming established and those existing allowed to expand, then the long term cost to both SA Water and the community may be much higher.

### **Issues Paper No. 2 WATER PRICING**

From an environmental perspective, it is preferable to reduce fixed charges and recover costs through the volumetric charges on water. This provides a greater incentive for conserving water. This of course has a positive environmental impact on our natural water sources as well as reduced demand for chemicals and reduced energy requirements for pumping, treatment and desalination. Indeed, there is a magnification impact where customers also extend their water conservation behaviour to the use of hot water, which is typically even more energy and greenhouse intensive than desalination treatment processes.

Supply charges that are based on the property value for commercial customers lead to an even greater disincentive for water conservation initiatives than compared with the fixed rate to residential customers.

**In relation to the feasibility of water conservation and water recycling infrastructure, a greater volumetric pricing proportion will make more water efficiency, water recycling, and stormwater recovery projects feasible.**

*Option 2: Move to a long-run marginal cost (LRMC) of supply for water consumption.*

**Q: Should prices be determined on the basis of the long run marginal cost (LRMC) of supply (that is, the cost over several decades)? If so, what factors should be considered in determining the LRMC of water?**

In regard to Option 2, and a regional long run marginal cost approach, consideration must also be given to enabling SA Water to achieve its operational requirement for sustainability. If it is the case that different pricing will apply, the Conservation Council SA would argue that there should be no relaxation of environmental standards or additional greenhouse gas emissions in providing this water in comparison to other regions, and that such standards should be described.

*Option 3: Set prices to reflect the scarcity of water or other significant short term influences.*

**Q: Should prices reflect any short-run effects on costs (that is, the short run marginal cost (SRMC) of water)? In particular, should prices reflect the scarcity of water during periods of drought or other circumstances and how will this impact water restriction arrangements?**

The Conservation Council SA is supportive of a level of scarcity pricing, should this pricing be determined in a process that reflects independent scientific advice on the environmental benefits and costs. For example, when the Adelaide Desalination Plant is in high usage, the costs to operate the plant are higher, compared with pumping from the Murray, which in turn has higher costs than water sourced from local hills runoff.

Additional provisions for preventing hardship to vulnerable household, business, and primary production customers may be required.

### **Other questions in relation to water pricing**

**Q: Should the current three-tier inclining block tariffs be retained? Why?**

The Conservation Council SA recommends a transition towards greater volumetric pricing away from supply charges based on property values and fixed connection charges. We do not have an issue with a tiered approach, which on balance provide a lower cost for meeting essential human needs, and higher costs where excessive water use is more likely to be for discretionary use, or for commercial use where costs can be recovered.

**Q: Should a supply charge be based on the number and size of meters?**

To the extent that supply charges might remain (although this is not preferred), they should be based on the size and number of meters, rather than property values.

**Q: Should commercial supply charges change from a property value basis to some other basis?**

As above.

**What do you recommend?**

Minimal supply charge to cover only the cost of the connection, meter and meter reading.

The Conservation Council SA understands that in some areas of the wastewater network it is desirable to maintain greater flushing volumes. In these very limited areas or streets, a flushing flow allowance could be applied for customers to maintain wastewater disposal for the collection network reliability.

**Vacant properties (rating on abuttal)**

There is no water conservation or related environmental benefit for rating an abuttal where the customer chooses to have no connection meter and hence no water consumption.

**Q: Should customers who do not connect to the network incur a supply charge?**

There is no water conservation or related environmental benefit for situations where the customer chooses to have no connection meter and hence no water consumption.

**Issues Paper No. 4 WATER PLANNING AND MANAGEMENT COSTS**

The Conservation Council SA notes the limited progress to implement the National Water Initiative to establish externality pricing. We are pleased that environmental and ecosystem management planning has been identified as an externality cost, but disappointed that a number of externalities continue to be ignored or poorly described.

For example, greenhouse externalities are not specifically acknowledged, nor is the cost of establishing large-scale seagrass restoration projects required as a result of wastewater and stormwater discharge, nor the cost of monitoring and preventing fauna entrapments. This issue goes to the heart of the narrow frameworks used for economic regulation of the industry. An externality cost that is not identified becomes an even greater externality.

**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?**

The framework could be improved to not only ensure the efficient cost recovery of planning and management costs, but to cover the full suite of externalities and dramatically improve the implementation of this NWI objective.

There should be independent oversight of these matters. Dealing with externalities is not something that ESCOSA could undertake by itself, due to the need to identify and address significant environmental externalities.

The Conservation Council SA would support that wherever possible, charges be related to the specific externality impacts, and the costs to undertake planning, and to mitigate or to avoid those impacts.

**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?**

This is a difficult question given that management of water resources rests with DEWNR, which overlaps the SA Water business requirement to plan to meet its water infrastructure needs. It is suggested that planning for infrastructure is core SA Water business, and these costs should be recovered through pricing. This should be under a level of independent oversight to ensure efficient asset planning (given particularly the recent history of electricity infrastructure and its upward pressure on pricing).

### **Issues Paper No. 3 SEWERAGE, TRADE WASTE & PROPERTY-BASED CHARGING**

**Q: What are the benefits and shortcomings of the way SA Water currently charges for sewerage services for residential and commercial customers?**

Sustainability and conservation are in the long term interests of customers.

Sewage charges based on the rateable value of properties or fixed connection charges provide no sustainability or environmental benefit.

**Q: What are the benefits and shortcomings of moving to a consumption-based charge, measured according to a customer's water use?**

The advantage of moving to a water consumption charge, that follows across to wastewater disposal, is that it provides an extension of the impact of water pricing to conserve water, and related externality costs.

Again, a consumption-based charge would help make more water conservation, stormwater recovery and recycling projects viable.

**Q: What are the benefits and shortcomings of moving to a fixed charge (i.e. a flat rate) where all customers pay the same price for the sewerage service. Should there be different fixed rates between commercial customers and residential customers?**

Fixed rates should be sufficient to recover the cost of connection only, to encourage the greater proportion of cost recovery to be linked to volumetric pricing. This will further increase water conservation responses and make water conservation, recycling and stormwater-use initiatives feasible.

**Q: What are the benefits and shortcomings of moving to a combination of fixed and volumetric charging?**

As above.

**Q: What are the benefits and shortcomings of the way SA Water currently charges for trade waste services?**

Trade waste charges are targeted towards risks and opportunities associated with discharging various wastewater streams to the sewer network. We therefore support the continuation of this approach, with a degree of flexibility to look at opportunities that benefit recycling and management of wastewater properties in the networks and treatment plants (as some discharges can be beneficial).

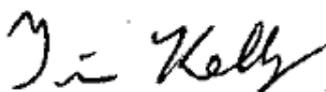
**Q: What are the benefits and shortcomings of the way SA Water currently charges non-connected properties for sewerage services? Are there any better methods?**

There is no environmental benefit in charging non-connected properties for sewage services where a consumer does not require a connection due to no dwelling or occupied structure built.

We thank ESCOSA for providing this opportunity to comment, and look forward to a pricing framework that encourages water conservation, improves the feasibility of water sensitive urban design as well as commercial/industrial scale water efficiency, stormwater and recycling projects.

I would be pleased to discuss our submission in more detail.

Kind regards

A handwritten signature in black ink that reads "Tim Kelly". The signature is written in a cursive, slightly slanted style.

Tim Kelly  
Chief Executive