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07 November 2013

Dr P Walsh
Chair
Essential Services Commission of South Australia
GPO Box 2605
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Dear Dr Walsh

I am writing with regard to ESCOSA's inquiry into reform of SA Water's drinking water and sewerage prices.

I am writing to provide some additional context about concessions and exemptions and the efficiency of sewerage charges.

Concessions and exemptions

ESCOSA's Issues Paper No. 7 seeks to address water and sewerage concessions and exemptions. This matter was not explicitly included in the terms of reference issued to ESCOSA for its inquiry by the then Treasurer in September 2012. Under the Water Industry Act 2012, the Minister for Communities and Social Inclusion is responsible for establishing a scheme for concessions and exemptions and the Act requires those schemes to be funded by the Government.

The Government is currently developing its Affordable Place to Live Strategy. The strategy will bring together feedback, evidence and ideas for change to address affordable living in a holistic and consistent manner.

ESCOSA's inquiry would not be able to adequately address the range of options that may be considered for vulnerable households, where water and sewerage costs/concessions are just one of many aspects of living affordability and Government support. This work is considered to be a matter for the Government's Affordable Place to Live Taskforce.

To the extent that ESCOSA seeks to use concessions and exemptions (which must be Government funded) to address transitional impacts of its proposed pricing reforms, it should transparently identify the cost of this approach. In general, ESCOSA's proposed pricing recommendations should be developed on a budget neutral basis.

The efficiency of sewerage charges

ESCOSA's Issues Paper No. 3 states that it is "reviewing sewerage pricing arrangements to see whether there is a more efficient way of charging customers for sewerage services." In

other words, is there a way of charging for sewerage services that will increase the public benefit?

There may be efficiency improvements achieved if sewerage pricing arrangements could be established so that the variable costs of the sewerage system were charged to the customer on the basis of use. This would result in the level of use of sewerage system reflecting the value received by the customer. This would require some way to measure use or an effective proxy. It would also require some way of measuring variable (marginal) cost in what is a high fixed cost part of SA Water's business.

The Productivity Commission considered whether there was scope for efficiency gains in household sewage in its 2010 report on Australia's Urban Water Sector. It concluded given that household sewerage services were unlikely to be influenced by price and "the high costs involved in installing sewage meters, it is most efficient to price household sewage as a fixed charge, as it is currently".

If it is accepted that the most efficient way to price household sewage is a fixed charge, then given that all households are required to connect to the sewerage system (because of the overwhelming public health benefits) the nature of the fixed charge chosen (e.g. flat charge or based on property value) will not impact on total efficiency (the total public benefit). This is because a fixed charge will not influence the level of use by the customer. It then becomes a question of equity, and as such a matter that should be addressed by government, not a regulator.

Thank you for the opportunity to contribute to this inquiry.



Garry Goddard
DEPUTY UNDER TREASURER