

Inquiry into Drinking Water and Sewerage Retail Services  
Pricing Reform  
Essential Services Commission of SA  
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8 November, 2013

Dear Commissioners,

Thank you for the opportunity to comment on the Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform – Issues Papers.

As the peak body for the community services sector in South Australia, SACOSS has had a long-standing interest in the delivery of essential services and particularly the cost of basic necessities like water because they impact greatly and disproportionately on low income and disadvantaged people.

With its focus on promoting economic efficiency and water security, SACOSS understands that this Inquiry is likely to be of major consequence to the long-term interests of consumers. SACOSS commends ESCOSA on the structure of what we believe is a comprehensive public consultation process and in particular, the establishment of an online consumer portal to facilitate input from consumers on this Inquiry and the production of Issues Papers to clarify matters to consumers.

SACOSS has engaged St Kitts Associates to provide advice on the Issues Papers with a view to identifying the overarching issues for water consumers, and with a particular focus on those most vulnerable to Pricing Reform. SACOSS supports all of the recommendations in the St Kitts report and has attached a copy of that report to this submission.

Specifically, SACOSS is extremely alert to the extensive breadth of the Issues Papers, which includes Water Pricing, Sewerage Charging, Water Planning and Management Costs, Metering, Billing Consumers Rather than Landlords and Reform Impacts on Consumers with Subsidies. This breadth of Issues has a closely related requirement to obtain and analyse detailed information about the distributional impacts of all possible reforms. It is clear that there will be some consumers who are worse off as a result of reform and every effort needs to be made to understand who the most vulnerable of these consumers will be and how they can be protected from negative impacts. On our part, amongst our ongoing priorities SACOSS is in continued discussion with SA Water to better understand these distributional impacts.

SACOSS and its member organisations have seen at first hand the real impacts of recent major increases in prices on low income and vulnerable consumers. Sudden major increases in bills can precipitate significant financial stress in low income and disadvantaged households and SACOSS believes these types of increases can and should be avoided. SACOSS supports an overarching principle of pricing stability and believes that pricing

reform should be pursued at a pace which enables all consumers to be resilient to changes in costs.

SACOSS is strongly supportive of “no regrets” opportunities that promote both efficiency and equity and would welcome their prioritisation. Formally linking the pursuit of economic efficiency with social policy initiatives that promote equity is also a major priority for SACOSS.

Finally, in regards to renters, SACOSS proposes that the principle of ensuring renters are able to access adequate consumer protections be placed as the guiding objective, and that this does not necessarily mean a change in billing arrangements is required. SACOSS would certainly welcome further exploration of how this guiding objective of accessing consumer protections can best be achieved.

SACOSS acknowledges that this is an opening phase of this Inquiry and plans to engage further in developing opinions on these issues. We thank you in advance for your consideration of our comments and look forward to future engagement.

If you have any questions relating to the above responses, please contact SACOSS Senior Policy Officer, Jo De Silva on 8305 4211 or via [jo@sacoss.org.au](mailto:jo@sacoss.org.au).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'RWomersley', with a large, sweeping flourish at the end.

Ross Womersley  
Executive Director

# ADVICE ON ESCOSA'S INQUIRY INTO SA WATER PRICING REFORM

SOUTH AUSTRALIAN COUNCIL OF SOCIAL SERVICE

A report on:

- The Essential Services Commission of South Australia's "Inquiry into the reform of SA Water's drinking water and sewerage prices, August 2013" Issues papers 1-7.
- Key issues for SACOSS
- Recommendations

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November 6<sup>th</sup>, 2013

## PREFACE

SACOSS has commissioned St Kitts Associates to provide advice with respect to the Essential Services Commission of South Australia's (ESCOSA's) "Inquiry into the reform of SA Water's drinking water and sewerage prices, August 2013".

This document provides a perspective based on the consultant's understanding of the interests of vulnerable residential consumers in relation to essential services. This is largely based on the consultant's 10-year history with SACOSS on energy market reform matters.

## SUMMARY

At its heart, this inquiry is about the distributional impacts of economic regulation. The Commission is compelled to regulate on the basis of economic efficiency. SACOSS is compelled to pursue issues of access to and affordability of water services for households and the community sector.

The Commission released a series of seven issues papers (including one overview paper) and summary comments on each are provided herein. A common theme though is that the distributional impacts on residential consumers are likely to be significant but the Inquiry has not released any information on the potential scale or distribution of these impacts.

The recommended priorities for a SACOSS response are:

1. Continue to emphasise the importance of pricing stability. Households have demonstrated the real impacts of the 'bill shock' phenomenon in both energy and water. Pricing reform must only be pursued at a pace that reflects the ability of the most vulnerable to be resilient to changes in costs.
2. Further develop an understanding of the opportunities for "no regrets" opportunities that promote both efficiency and equity and advocate for their prioritisation.
3. Obtain reliable baseline (ie current pricing) information on the distribution of water consumption by consumers. This can then inform consideration of the likely distributional impacts of any pricing reforms.
4. Obtain reliable baseline (ie current pricing) information on the distribution of sewer costs by consumers. This can then inform consideration of the likely distributional impacts of any pricing reforms.
5. Continue to emphasise the importance of formally linking the pursuit of economic efficiency with social policy initiatives that promote equity.
6. Continue to emphasise the importance of ensuring renters are able to access adequate consumer protections, including the right to water-efficient housing.

In addition, it is recommended that SACOSS further develop an understanding of the theory and practice of pricing water (and energy<sup>1</sup>) at Long Run Marginal Cost.

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<sup>1</sup> It is noted that the CoAG Standing Council on Energy and Resources (SCER) has recently lodged a rule change proposal to the Australian Energy Markets Commission that will require electricity network businesses to price at Long Run Marginal Cost. Refer to [www.scer.gov.au/workstreams/energy-market-reform/demand-side-participation/proposed-rule-changes/](http://www.scer.gov.au/workstreams/energy-market-reform/demand-side-participation/proposed-rule-changes/)

## DISCUSSION

The *Water Industry Bill 2011* was introduced to the South Australian Parliament on July 27<sup>th</sup>, 2011. As is usually the case, the Minister's second reading speech<sup>2</sup> frames the legislation's intent (emphasis added):

*Water is a vital environmental and economic resource. With the onset of climate change and the prospect of major economic and population growth, it is clear that South Australia must continue to plan for its water security, as well as encourage more diverse water supplies from an increasingly sophisticated and diverse water services sector.*

*For these reasons, the Water Industry Bill 2011 will provide a new legislative foundation for a 21<sup>st</sup> century water industry. This is an industry in which increasing numbers of players will have the opportunity to drive more efficient and innovative service delivery for the long-term benefit of South Australian consumers.*

Consistent with the consumer energy markets, a key intent of the reform agenda is to open the market to private investment and innovation. The rationale being that, in the long run, consumers are better off in an environment of competition and diversity of supply than if they were to remain in a market dominated by a vertically integrated, government owned monopoly.

In terms of Government Policy, Part 6 of *Water for Good*<sup>3</sup> outlines the Government's approach to pricing and market instruments. The document makes it clear that the intention is to move towards economically efficient, cost reflective water pricing and that equity considerations are to be addressed through "targeted income support (concessions) measures".

At page 142, the document states:

*"The Government will develop a regulatory framework to: ...*

- establish a clear separation between economic objectives, to be pursued by [independent regulator] ESCOSA and non-economic objectives (i.e. health, social and environmental objectives) to which ESCOSA must have regard, but for which the State Government will retain primary responsibility."*

Page 144 discusses 'Water usage prices' in more detail. This states a desire to retain the current tariff structure for residential customers in order to:

*"... manage the impact on residential customers by smoothing the transition to higher water use prices over a period of time" and to "ensure social equity considerations are adequately provided for until equity instruments can be fully separated from the pricing policy".*

So, just as has been the case for energy market reform, it is clear from the above that there is also explicit intent in the water market reform process to separate economic efficiency and equity considerations.

SACOSS does not have to agree with this philosophy. It does however have to work within the framework and ensure that the most vulnerable South Australians are able to access an adequate, affordable and always available supply of potable water for health and hygiene.

The Minister also foreshadowed a review of Tariff Structures when introducing the *Water Industry Bill, 2011*:

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<sup>2</sup> [http://hansard.parliament.sa.gov.au/pages/loaddoc.aspx?e=1&eD=2011\\_07\\_27&c=3](http://hansard.parliament.sa.gov.au/pages/loaddoc.aspx?e=1&eD=2011_07_27&c=3)

<sup>3</sup> <http://www.environment.sa.gov.au/about-us/plans>

*Consistent with action 73 in Water for Good, the Government also remains committed to a review of pricing structures for water and sewerage services in the medium term. This will be undertaken by ESCOSA, who will be asked to examine matters such as property-based charging.*

*This review, along with the proposed report on third party access arrangements, will inform the next phase of the Government's water reform agenda and both will be important complements to the proposals in this Bill. Again, as with the proposals in this Bill, these initiatives will be the subject of major consultation with all interested stakeholders.*

The Issues papers released by ESCOSA and the subject of this report, represent the opening stage of this inquiry<sup>4</sup>. It is important to acknowledge the Minister's comments that this inquiry "*will inform the next phase of the Government's water reform agenda*"

The Commission has released a series of seven issues papers (including one overview paper) and summary comments on each are provided herein. A common theme though is that the distributional impacts on residential consumers are likely to be significant but the Inquiry has not released any information on the potential scale or distribution of these impacts.

The only information that SACOSS has access to (and it is in summary form and not all in the public domain) is from a multi-agency sponsored report from the Australian Bureau of Statistics (ABS 4618.4 Domestic Use of Water and Energy South Australia October 2004. The survey "*was conducted to inform South Australian State Government planning and decision making in relation to water and energy management*". A supplementary but confidential "Consumption Data Analysis Report" was also produced by the ABS Statistical Consultancy in April 2007). It is unclear as to how relevant this data is to today's context. An initial review of information collected in the 2009-10 Household Expenditure Survey suggests that aggregating expenditure is complicated by the split in costs between renters and homeowners.

Summary comments on each of the Issues papers follows:

#### Issues Paper No.2 Water Pricing

This paper deals with a number of issues including statewide pricing and the structure of SA Water tariffs (ie fixed and variable components). The distributional impacts on consumers are likely to be significant (e.g. metro vs country, small users vs large users) but the Inquiry has not released any information on the potential scale or distribution of these impacts. The paper includes a series of questions. SACOSS has not had the resources to develop detailed responses to these questions. A short discussion, updated from a previous SACOSS submission is provided at Annex A.

#### Issues Paper No.3 Sewerage, Trade Waste & Property-based charging

This paper deals with the charging approach for sewerage services. The paper considers the move away from sewerage being charged based on property values to something more reflective of actual costs. The inquiry has not clearly articulated what "cost reflective" means for sewerage services. The distributional impacts on residential consumers are likely to be significant but the Inquiry has not released any

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<sup>4</sup> The "Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform" was referred to ESCOSA in December 2012: [www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx](http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx)

information on the potential scale or distribution of these impacts. The paper includes a series of questions. SACOSS has not had the resources to develop detailed responses to these questions.

#### Issues Paper No.4      Water Planning and Management Costs

This paper refers to the cost of planning and managing the state's water resources. The paper describes how these costs are recovered from water consumers through SA Water and through the Save the River Murray Levy. It sets out that these costs are around \$40m pa<sup>5</sup>. The paper discusses the transparency of this charging arrangement. SACOSS should be interested in the transparency of these costs but it is not considered to represent a priority issue at this stage.

#### Issues Paper No.5      Metering

This paper discusses two key metering issues: extending individual metering to everyone and the merits of 'smart' metering. This is an area of relevance and interest to SACOSS. The distributional impacts on residential consumers are likely to be significant but the Inquiry has not released any information on the potential scale or distribution of these impacts.

#### Issues Paper No.6      Billing Consumers rather than Landowners

In the context of the SACOSS interest, this paper discusses the issues of billing renters (tenants) instead of landlords. This is something that SACOSS has commented on in the past. It is important that SACOSS convey its primary intention in this regard is to ensure that renters are able to access equivalent consumer protections as owner-occupiers and that this does not automatically mean a radical change in billing arrangements. The issues paper notes that in Queensland, tenants can only be required to pay the full cost of water consumption if the premises meet water efficiency standards. This may be something SACOSS wishes to investigate with QCOSS and consider for the next stage of the Inquiry.

#### Issues Paper No.7      Managing Pricing Reform Impacts on Consumers with Subsidies

This paper is of very direct relevance and importance to SACOSS for two reasons. Firstly it discusses the "joining up" of concessions and community service obligations. Secondly it refers to the exemptions afforded many community sector organisations. It will be important for SACOSS to also consider the issues of efficiency and equity in their entirety since the impact on consumers manifests as the combined cost of services and concessions, rebates etc. It is encouraging that ESCOSA is considering this but SACOSS should consider emphasising that efficiency based reforms will only be supported when complementary measures such as concessions and CSOs are linked to preserve the access and affordability for vulnerable consumers.

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<sup>5</sup> Issues Paper 4, Page 2: SA Water contribution of \$51m over 3 years averages \$17m pa, the 2013-14 estimate of the River Murray Levy is \$26m, totalling \$43m pa.

## ANNEX A: A DISCUSSION OF COST-REFLECTIVE PRICING<sup>6</sup>

ESCOSA's draft revenue determination for SA Water repeatedly encouraged the use of "cost-reflective prices" to manage demand risks (see, for example, pages 28-317). The ESCOSA view is that, consistent with the National Water Initiative Pricing Principles (NWI PP), SA Water's prices should rebalance the fixed and variable components so as to reduce consumption charges to long-run marginal cost (LRMC, estimated to be well below current consumption charges). Of course, for a given revenue allowance, this can only mean an increase to the fixed component.

SACOSS also drew ESCOSA's attention to the potentially disproportionate impact on residential consumers in particular. SA Water's current tariffs classify drinking water consumers as residential, commercial and 'other non-residential'. The residential tariffs comprise a fixed supply charge and a three-tiered consumption charge. All of the other tariffs include a supply charge (determined in a range of ways) and a common, single consumption charge of \$3.23/kL. Taking ESCOSA's preferences to their logical conclusion would reduce the consumption charge to something around \$2.75/kL or less for all consumers (see footnote 49, page 28). Residential consumers faced an average usage charge around \$2.60/kL from 2013-14 tariffs (while the average household faces a marginal cost in the second tier of charges, \$3.23/kL, consumption up to 120kL per annum is charged at \$2.26/kL)

So, to rebalance non-residential tariffs to include a reduction in consumption charge from \$3.23 to \$2.75 (i.e. -17.5%) implies that either:

- Fixed supply charges for these customers must increase significantly to make up the revenue difference, or;
- More revenue must be recovered from residential consumers, and;
- Since residential consumers already face an average usage charge at or just above LRMC, any additional revenue must come from a further increase to supply charges.

SACOSS is therefore extremely concerned that households, especially consumers of small volumes of water, may face significant cost increases even if overall regulated revenues fall.

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<sup>6</sup> Updated from SACOSS submission to ESCOSA'S Draft Determination of SA Water's Drinking Water and Sewerage Revenue 2013/14 to 2015/16 [www.escosa.sa.gov.au/library/130321-ReviewOfSAWaterRegulationBusinessProposal-DraftDeterminSubmission-SACOSS.pdf](http://www.escosa.sa.gov.au/library/130321-ReviewOfSAWaterRegulationBusinessProposal-DraftDeterminSubmission-SACOSS.pdf)

<sup>7</sup> [www.escosa.sa.gov.au/projects/186/determination-of-sa-water-s-drinking-water-and-sewerage-revenue-2013-14-2015-16.aspx#stage-list=2](http://www.escosa.sa.gov.au/projects/186/determination-of-sa-water-s-drinking-water-and-sewerage-revenue-2013-14-2015-16.aspx#stage-list=2)