

## APPENDIX 5: BILLING END USERS – COST BENEFIT ANALYSIS AND OTHER OPTIONS

*Draft Inquiry Report: Inquiry into Reform Options for  
SA Water's Drinking Water and Sewerage Prices*

July 2014



## REQUEST FOR SUBMISSIONS

The Essential Services Commission of SA (**the Commission**) invites written submissions from all members of the community on this paper. Written comments should be provided by **10 September 2014**. It is highly desirable for an electronic copy of the submission to accompany any written submission.

It is the Commission's policy to make all submissions publicly available via its website ([www.escosa.sa.gov.au](http://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 publish any submission based on length or content (for example, if it contains material that is defamatory, offensive or in breach of any law).

Responses to this paper should be directed to:

Billing End Users – Cost Benefit Analysis and Other Options

Essential Services Commission of South Australia

GPO Box 2605

Adelaide SA 5001

Telephone: (08) 8463 4444

Freecall: 1800 633 592 (SA and mobiles only)

E-mail: [escosa@escosa.sa.gov.au](mailto:escosa@escosa.sa.gov.au)

Website: [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au)

**Contact Officers:** Kara O'Sullivan

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](http://www.escosa.sa.gov.au).

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## GLOSSARY OF TERMS

<b>ABS</b>	Australian Bureau of Statistics
<b>ASM</b>	Australasian Sub Meters
<b>CBA</b>	Cost benefit analysis
<b>CHCSA</b>	Community Housing Council of South Australia
<b>COTA SA</b>	Council On The Ageing South Australia
<b>Commission</b>	The Essential Services Commission of South Australia
<b>Commercial and retail lease</b>	This has the same meaning as a retail lease or lease under the <i>Retail and Commercial Leases Act 1995 (SA)</i>
<b>Customer protection measures</b>	A group of measures, under the Commission’s <i>Water Retail Code – Major Retailers</i> , in place to protect the rights of customers
<b>DCSI</b>	Department of Communities and Social Inclusion
<b>DPTI</b>	Department of Planning, Transport and Infrastructure
<b>End user</b>	A person who actually uses a water or sewerage service
<b>HP</b>	Hewlett-Packard
<b>Hybrid approach</b>	SA Water billing end users for water usage charges and sewage disposal and billing landowners for supply charges. Or, SA Water billing end users for water supply and usage charges and billing landowners for sewerage services and the Save the River Murray Levy
<b>kL</b>	Kilolitre = 1000 litres
<b>Landlord</b>	A person who grants the right of occupancy under a residential tenancy agreement
<b>Landowner</b>	A person who owns land to which a retail service is provided by SA Water
<b>Lessee</b>	A person who has the right to occupy a retail shop under a retail lease
<b>Lessor</b>	A person who grants or proposes to grant the right to occupy a retail shop under a retail lease

<b>LRMC</b>	Long run marginal cost
<b>Non-residential customer</b>	A customer other than a residential customer
<b>NPV</b>	Net present value
<b>Owner-occupier</b>	A person who owns the house in which they live
<b>PwC</b>	PricewaterhouseCoopers Australia
<b>REISA</b>	Real Estate Institute of South Australia
<b>Residential customer</b>	A customer who acquires a retail service primarily for domestic use
<b>RTT</b>	Residential Tenancies Tribunal South Australia
<b>SA Water</b>	South Australian Water Corporation
<b>SA Water customer</b>	<p>A person who owns land in relation to which SA Water provides a retail service. This includes:</p> <ul style="list-style-type: none"> <li>• where the context requires, a person seeking the provision of a retail service</li> <li>• in prescribed circumstances – a person supplied with retail services as a consumer or user of those services (without limiting the application of this definition to owners of land)</li> <li>• a person of a class declared by the regulations under the <i>Water Industry Act</i> to be customers</li> </ul>
<b>SACOSS</b>	South Australian Council of Social Service
<b>Sewerage service</b>	This has the same meaning as the term used in the <i>Water Industry Act</i>
<b>SRE</b>	Standard residential equivalent (400kL per annum). A measure of peak demand on the system.
<b>SWIC</b>	Statewide infrastructure charge
<b>Tenancy agreement</b>	An agreement under which a person grants another person, for rent, a right to occupy premises for the purpose of residence
<b>Tenant</b>	A person who rents and occupies a house from another for a period of time under a residential tenancy agreement

**Water service**

This has the same meaning as the term used in the *Water Industry Act*

# 1. INTRODUCTION

The Essential Services Commission of South Australia (**Commission**) report *Inquiry into the Reform of SA Water's Drinking Water and Sewerage Prices* presents the Commission's proposed recommendations for pricing drinking water and sewerage services. As a part of the Inquiry, and as included in its report, the Commission has considered the impact of billing an end user of water and sewerage services (rather than the owner of land).

In arriving at the conclusions presented in that report, the Commission undertook cost benefit analyses for moving to end user billing under a number of reform scenarios. This report presents the details of those cost and benefit analyses (including the inputs, methodology and assumptions) and a summary of the options that were considered by the Commission but were not considered favourable at this time. These options are based on those presented in the Commission's Issues Paper<sup>1</sup> which it released in August 2013.

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<sup>1</sup> Refer to: [http://www.escosa.sa.gov.au/library/130829-WaterPricingInquiry-IssuesPaper\\_6-ImpactsBillingConsumersRatherThanLandOwners\\_0.pdf](http://www.escosa.sa.gov.au/library/130829-WaterPricingInquiry-IssuesPaper_6-ImpactsBillingConsumersRatherThanLandOwners_0.pdf).

## 2. BILLING END USERS

### 2.1 Background and methodology

#### 2.1.1 Scope

In South Australia, 68 per cent<sup>2</sup> of properties are owner-occupied. If those properties receive SA Water retail services, the owner is both the customer and the end user. The Commission's recommendation would not impact these arrangements.

A further 28 per cent of properties in the State are tenanted. This means that if the property receives SA Water retail services, the tenants are the end users. However, they are not classed as customers by SA Water and are therefore unable to benefit from most customer protection measures available to owner-occupiers.

As at 31 December 2013, SA Water reported that it had approximately 672,200 residential customers. Therefore, applying the proportion of owner-occupied properties to SA Water's residential customers, the Commission estimates that around 188,000 accounts are billed to land owners who are not the end users of the water or sewerage service. The analysis included in this report assesses the implications (costs and benefit) of SA Water directly billing these end users.

The lack of consolidated data on commercial and retail leases means that analysis cannot be conducted for *non-residential* end users. However, the analysis for *residential* end users should be applicable to non-residential end users for many of the same reasons presented.

#### 2.1.2 Current arrangements

##### 2.1.2.1 Residential customers

Under the terms of the *Water Industry Act 2012 (Water Industry Act)*, the customer with whom SA Water contracts to provide a water or sewerage retail service must be the owner of the land to which that service is provided, whether or not that person is resident on that land, or receives the retail service.

The current practice is unique to the water sector – it does not apply in the case of other utilities, such as gas, electricity or telecommunications. The Productivity Commission has recently suggested that where water is separately metered there is '*no clear justification for landlords, rather than tenants, paying for water usage.*'<sup>3</sup>

Currently, there can be up to three-months' delay between a landowner receiving a bill and passing the charges on to the tenant. Further, tenants are not always provided with copies of bills. Although landlords are likely to pass on any sewerage or water costs that they incur

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<sup>2</sup> ABS Census Data 2011 Quickstats at [www.abs.gov.au](http://www.abs.gov.au)

<sup>3</sup> Productivity Commission, *Australia's Urban Water Sector*, Report No. 55, Final Inquiry Report, August 2011, p.159.

to the tenant either directly through the bill or indirectly through rent, the price signal is weakened, as these costs are not transparent and may be delayed.

Landlords are responsible for paying SA Water's water and sewerage charges, pursuant to the Water Industry Act.

In relation to water charges, Section 73 of the *Residential Tenancies Act 1995* (**Residential Tenancies Act**), allows landlords and tenants the ability to agree whether water usage and/or supply charges should be directly passed on to the tenant. In the absence of an agreement, the landlord is able to request payment from the tenant for the water supply and usage charges where separately metered. (If the water supply is not separately metered, the water supply and charges are still to be borne by the landlord).<sup>4</sup>

Where the charges are passed on directly to the tenant, the landlord (or their property manager) is not required to provide the tenant with a copy of the SA Water invoice, unless requested by the tenant. Therefore, tenants are generally unable to monitor their water consumption and adjust their behaviour to lead to a more efficient use of water.

All sewerage charges are currently paid for by the landlord and cannot be directly passed on to tenants pursuant to the Residential Tenancies Act.

Where there is no direct passing on of water or sewerage charges to tenants, it is expected that those costs would be recovered by landlords indirectly through rent.

As tenants are not SA Water's 'customers' they do not receive various consumer protections, such as access to flexible payment arrangements (and financial hardship programs), a billing dispute process or early notification about possible concealed water leaks.

Further, in the residential sector, the passing on of water charges to tenants is a manual, and time-consuming, process carried out by either the landlord or their property manager, with the costs passed on to tenants indirectly through rent. Disputes between a landlord and tenant relating to water charges are heard by the Residential Tenancies Tribunal (**RTT**).

Despite the general rule, a tenant will not be required to pay for water charges if the landlord does not request payment within three months of the issuing of the bill. Further, a tenant is not required to pay water charges if they have requested a copy of the account and the landlord has failed to provide one (at no cost to the tenant) within 30 days of the request.

Under the Commission's Water Retail Code, a tenant can also request billing data directly from SA Water.<sup>5</sup>

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<sup>4</sup> Amendments to the Residential Tenancies Act prescribing these arrangements came into force 1 March 2014.

<sup>5</sup> ESCOSA, *Water Retail Code – Major Retailers*, cl. 18.11.4 and 18.11.5, November 2012, accessible at <http://www.escosa.sa.gov.au/projects/183/water-retail-code.aspx>.

### 2.1.2.2 Non Residential Customers

Under Section 26 of the *Retail and Commercial Leases Act 1995* (**Retail and Commercial Leases Act**), a lessee is liable to pay an amount to the lessor in respect of outgoings – and this includes water and sewerage charges. The lease must specify:

- ▲ the outgoings
- ▲ how the amount of outgoings will be determined
- ▲ how they will be apportioned to the lessee
- ▲ how those amounts will be recovered.

The lessor is required to provide a disclosure statement to the lessee before a lease is entered into. This statement must include outgoings – including water and sewerage charges payable – together with an estimate of the lessee’s annual liability.

Under Section 31 of the Retail and Commercial Leases Act, the lessor has an ongoing obligation to give the lessee a written estimate of outgoings, including an itemised list, every year. This estimate must be for each accounting period during the term of the lease and be provided at least one month prior to the start of each period.

Under the Commission’s Water Retail Code, retail and commercial tenants are also able to directly request billing data from SA Water.<sup>6</sup>

### 2.1.3 Options assessed for SA Water’s billing arrangements

The options assessed include:

- ▲ SA Water customers being the end user of a water or sewerage retail service, rather than the owner of the premises to which that retail service is supplied (**billing end users for retail services**) – **Recommended option** (further discussion on the recommended option can be found in chapter six of the Commission’s Inquiry draft report)
- ▲ SA Water continuing to bill retail services to the owner of the property where that retail service is supplied (**status quo**) – not supported by the Commission at this time;
- ▲ SA Water billing end users for water usage charges and sewage disposal and billing landowners for supply charges, or SA Water billing end users for water supply and usage charges and billing landowners for sewerage services and Save the River Murray Levy (**hybrid approach**) – not supported by the Commission at this time; and
- ▲ requiring landlords to install certain water-efficient devices – not supported by the Commission at this time.

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<sup>6</sup> Refer: ESCOSA, *Water Retail Code – Major Retailers*, cl. 18.11.4 and 18.11.5, November 2012, accessible at <http://www.escosa.sa.gov.au/projects/183/water-retail-code.aspx>.

### 2.1.4 Cost Benefit Analysis (CBA) inputs

To inform the CBA inputs, the Commission has received data from SA Water, RTT, Consumer and Business Services and the Real Estate Institute of South Australia (REISA).

#### 2.1.4.1 Benefits

The Commission has identified the following benefits in assessing the options for SA Water’s billing arrangements.

**Table 1: Benefits identified for assessment**

BENEFIT	NATURE OF BENEFIT	OCCURRENCE OF BENEFIT	CALCULATION OF BENEFIT
Reduced/ economically efficient water consumption	Improved signals would lead to economically efficient levels of consumption, which would reduce overall consumption	Recurring	2% reduction in average consumption converted to reduced bulk water requirement at the value of Greater Adelaide LRMC per kL
Reduced leakage	Better visibility of leaks due to receiving a bill	Recurring	0.5% reduction in average consumption converted to reduced bulk water requirement at the value of Greater Adelaide LRMC per kL
Capital efficiency	Dispersed reduced demand load, resultant deferral of network upgrade works	Once off	2.5% reduced consumption converted to reduced bulk water requirement and then to SREs and multiplied by the proposed SWIC
Reduced costs in property managers and/or landlords passing on charges to tenants	Removal of landlords and/or property managers calculating charges to pass on to tenants	Recurring	Hours of effort at the ABS median wage (SA) plus printing and postage cost per bill
Reduced RTT hearings	Reduced volume of disputes requiring to be heard by RTT	Recurring	Hours of effort of landlords, tenants and tribunal staff spent on a dispute, by the number of disputes containing water and assuming half of these costs are incurred as a result of water issues

A 50 per cent over and under realisation of the above benefits was tested during sensitivity analysis and forms the benefit inputs of the high and low case net present values (NPV).

### 2.1.4.2 Costs

The Commission has identified the following costs in assessing the options for SA Water’s billing arrangements.

**Table 2: Costs identified for assessment**

<b>COST</b>	<b>NATURE OF COST</b>	<b>OCCURRENCE OF COST</b>	<b>CALCULATION OF COST</b>
Billing system and business processes	Cost of upgrading the billing system and business processes to enable billing to consumers	At implementation	Estimates based on workshops with SA Water and HP staff, costing analysis by PwC
Meter reads	An increase in final meter reads when a customer moves in and out of a property	Recurring	SA Water actual costs to conduct special meter reads per read
Hardship program	Increased costs in administering the hardship program due to an increase in the number of customers participating	Recurring	SA Water actual costs per customer of current hardship program inflated to assume an increase from 0.6% (SA Water current figures) to 1% (electricity retailer figures) participation of customers in the program
Customer inquiries	Cost of answering increased customer inquiries (from increased customer base in the hybrid approach)	Recurring	SA Water actual variable costs of customer service per customer (only applied where SA Water meter fitted)
Billing	Costs of printing and sending final bills out of cycle	Recurring	SA Water actual variable costs to print and post a bill

A 20 per cent overspend and underspend in the estimated costs was tested during sensitivity analysis and forms the cost inputs of the low and high case NPVs.

### 2.1.4.3 Assumptions

The CBA considers the marginal (or incremental) cost or benefit compared to the status quo assessed over a 20-year horizon. A 6 per cent real discount rate was used to obtain the net present values presented.

In undertaking the CBA, the Commission made the following assumptions:

- ▲ The upgrades to SA Water’s billing system will take two years to complete. This is based on analysis conducted by PricewaterhouseCoopers (**PwC**) as a part of the Commission’s Inquiry, which showed a mid-point estimate of 102 weeks for this upgrade.
- ▲ SA Water’s customer base would not grow as a consequence of billing end users for all charges as there would continue to be one customer per connected property.
- ▲ SA Water’s customer base would increase by 188,000 under the hybrid approach as there would be two customers per tenanted property (as explained in 2.1.1 above).
- ▲ The approximate growth in SA Water’s customer base each year is estimated at 0.9 per cent. This estimate was provided by SA Water, based on previous year’s observations.
- ▲ Tenants would move properties once every two years on average. The Department of Human Services in Victoria reported in its March 2013 Rental Report that the average length of private rentals was 25 months for Melbourne and 22 months for Regional Victoria.<sup>7</sup> It is expected that the averages would be similar in South Australia. There is no equivalent data available for the South Australian rental market.
- ▲ All tenant moves would occur on a different day to scheduled billing and would require an out-of-cycle meter read and final bill. While some moves may occur at the time of scheduled reading, this assumption was made to ensure the costs of out-of-cycle meter reading and billing have not been underestimated.
- ▲ The proportion of customers participating in SA Water’s hardship program would increase to be equivalent to the proportion of customers participating in AGL SA and Origin Energy’s hardship programs. It is assumed that tenants are more likely than owner-occupiers to face financial hardship.<sup>8</sup> As South Australian electricity retailers currently bill tenants and owner-occupiers it is expected that the increase would be equivalent.
- ▲ The average annual water use of South Australian residential customers is 190kL, as reported in the National Water Commission’s Urban Water Performance Benchmarking Report.<sup>9</sup>

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<sup>7</sup> Department of Human Services, Victorian Government, *Rental Report – March 2013 quarter*, September 2013, p.10, available at: [http://www.dhs.vic.gov.au/\\_data/assets/pdf\\_file/0011/838352/March-quarter-2013.pdf](http://www.dhs.vic.gov.au/_data/assets/pdf_file/0011/838352/March-quarter-2013.pdf).

<sup>8</sup> According to data reported from the ABS’ 2009-10: Household Expenditure Survey Australia, renters make up 90.1% of the households in the lowest quintile for net worth, while owners make up 5.5%. Conversely, renters make up 1.6% of the households in the highest quintile for net worth, while owners make up 97.8%.

<sup>9</sup> National Water Commission, *National performance report 2012-13: urban water utilities*, April 2014, p.36, available at [http://www.nwc.gov.au/\\_data/assets/pdf\\_file/0015/36411/Urban-Performance-Report-2012-13.pdf](http://www.nwc.gov.au/_data/assets/pdf_file/0015/36411/Urban-Performance-Report-2012-13.pdf).

## 3. OTHER OPTIONS

### 3.1 *Status quo*

#### 3.1.1 *Summary*

The status quo option allows SA Water to continue billing land owners for all water and sewerage charges (including the Save the River Murray Levy), whether or not that person is resident on that land or receives the retail service. Land owners are then able to pass on charges, either directly in the case of water charges, or indirectly through rents for sewerage charges.

#### 3.1.2 *Commission's considerations*

##### 3.1.2.1 *Reasons for not supporting this option*

The reasons for not supporting this option include:

- ▲ It is not economically efficient for the costs associated with the provision of a service to be recovered from a person who does not receive that service.
- ▲ Landlords incur additional costs in passing on water charges to tenants, increasing overall administrative costs.
- ▲ Residential end users are unable to gain access to the full suite of consumer protection measures available to landowners.
- ▲ There is minimal transparency, which may result in inefficient usage and increased leakage.
- ▲ Land owners and tenants experience confusion over billing, which results in an increase in disputes for tenanted arrangements, with associated costs.
- ▲ It does not align with the 'user pays principle,' adopted in the energy and telecommunications industries in this and other states.

Further detail of the benefits and costs associated with this option are discussed below.

##### 3.1.2.2 *Benefits*

Maintaining the status quo avoids the costs associated with moving to end user billing. It avoids SA Water's costs associated with changing its billing systems and processes, and the further costs SA Water would incur from additional meter reads and final bills, and from having additional customers participating in its hardship program.

Land Services<sup>10</sup> Community Housing Council of SA<sup>11</sup> and SA Water<sup>12</sup> all argued that the current arrangement are more effective, and reduce costs for tenants overall. Under the current arrangement, tenants are not required to pay for special meter reads or disconnection fees. The Commission has taken into consideration the cost of additional meter reads in its CBA for billing end users, and it remains positive. Disconnection charges have not been included in the CBA, as SA Water would first need to develop a policy for 'move outs', and decide whether disconnection was an appropriate action.

Further, SA Water argued that, for changes to occur, there would be need to be an increase in customer service management and resourcing for debt recovery, and for debt write-offs, which would cause higher prices and costs for consumers. The Commission's view is that these costs are not avoided in the status quo but are a transfer of costs currently carried by landlords. (Further discussion on this matter can be found in Appendix 7 – SA Water's Statutory Debt Recovery and Security Provisions).

### 3.1.2.3 Costs

Retaining the status quo would mean that the substantial savings to society of billing end users directly would not occur. Landlords would continue to incur the additional administration costs in calculating and passing on water charges to tenants. Tenants would not experience savings in their usage, or savings driven by efficient detection of leaks. Disputes between landlords and tenants relating to water charges would still be heard in the Residential Tenancies Tribunal.

Tenants would continue to have no access to a number of consumer protections, such as access to flexible payment arrangements (and financial hardship programs), a billing dispute process, or early notification about possible concealed water leaks.

Further, SA Water would not benefit from the available cost savings associated with capital efficiency, as it would need to upgrade its network sooner than under the end user billing option.

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<sup>10</sup> Department of Planning, Transport and Infrastructure, *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform*, 2013, p.4; available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx>.

<sup>11</sup> Community Housing Council of SA, *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform*, 2013, p.3; available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx>.

<sup>12</sup> SA Water, *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform*, 2013, p.21; available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx>.

## 3.2 A hybrid approach

### 3.2.1 Summary

A hybrid approach involves land owners and end users paying for separate charges. There are two main approaches under this option:

- ▲ The land owner is responsible to SA Water for water and sewerage service supply charges, and the end user is responsible to SA Water for water usage charges (and any variable sewage disposal charges), similar to the approach adopted in Victoria and supported by DCSI<sup>13</sup> and ASM<sup>14</sup>
- ▲ The land owner is responsible to SA Water for sewerage charges and the end user is responsible to SA Water for water charges

The quantifiable costs and benefits for both these options are the same and, therefore, only one cost benefit analysis has been undertaken, as detailed below.

### 3.2.2 Commission's considerations

#### 3.2.2.1 Reasons for not supporting this option

This option is not recommended, as it does not completely meet the principle that it is economically efficient for the costs associated with the provision of a service to be recovered from the users of that service. RTT submitted<sup>15</sup> that tenants should not pay for sewerage supply charges, as this is consistent with a general policy approach that the landowner should pay for capital costs related to the property, and the tenant should be responsible for maintaining the property and outgoings. The position that sewerage charges are capital costs relates to these charges being calculated based on the property value. As it is recommended that sewerage charges move to a fixed charge (refer to chapter four of the Commission's draft Inquiry report for further information on sewerage charges) this would no longer be the case. The principle adopted by the Commission is that sewerage is a service that should be paid for by the user of that service.

This option does not add any further benefits to the Commission's preferred option, but involves additional costs. The estimated NPV of this option is \$39.5m, which is less than the \$53.8m NPV of the Commission's preferred option.

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<sup>13</sup> Department for Communities and Social Inclusion, *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform*, 2013, p.3; available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx>.

<sup>14</sup> Australasian Sub Meters, *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform*, 2013, p.5; available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx>.

<sup>15</sup> Residential Tenancies Tribunal, *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform*, 2013, p.3; available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx>.

Further detail of the benefits and costs associated with this option are discussed below.

**3.2.2.2 Benefits**

The benefits of this option are similar to the benefits (and at the same NPV) identified for SA Water billing end users for all water and sewerage services. These benefits are identified in Table 3. However, the benefit of greater transparency about sewerage charges, which are currently indirectly recovered through rental charges, would be removed under this option.

**Table 3: Main benefits of hybrid approach**

<b>BENEFIT</b>	<b>NATURE OF BENEFIT</b>	<b>NPV AMOUNT (MID CASE, 6%) (\$DEC-13)</b>	<b>WHO RECEIVES THE BENEFITS?</b>
Reduced costs in property managers and/or landlords passing on charges to tenants	Removal of landlords and/or property managers calculating charges to pass on to tenants	\$47.3m	Landlords (and tenants)
Reduced/economically efficient water consumption	Improved signals would lead to economically efficient levels of consumption, which would reduce overall consumption	\$5.0m	Tenants
Reduced leakage	Better visibility of leaks due to receiving a bill	\$1.2m	Tenants
Capital efficiency	Dispersed reduced demand load, resultant deferral of network upgrade works	\$6.1m	SA Water
Reduced RTT hearings	Reduced volume of disputes requiring to be heard by RTT	\$4.8m	RTT Landlords Tenants

**3.2.2.3 Costs**

The costs associated with this option include all costs identified in billing end users for water and sewerage services, plus additional costs. There are additional costs associated with sending two bills (\$6.2m NPV), and additional customer service costs in maintaining two customers for one property (\$9.5m NPV). There may also be an increase in the administrative costs of the hardship program, with the potential for two sets of customers to enter the program for one property (\$0.8m). A list of all the mains costs is detailed in Table 4.

**Table 4: Main costs of hybrid approach**

<b>COST</b>	<b>NATURE OF COST</b>	<b>NPV AMOUNT (MID CASE, 6%) (\$DEC-13)</b>	<b>WHO RECEIVES THE COSTS?</b>
Billing system and business processes	Cost of upgrading the billing system and business processes to enable billing to consumers	\$4.6m	SA Water
Meter reads	An increase in final meter reads when a customer moves in and out of a property	\$3.7m	SA Water
Hardship program	Increase costs in administrating the hardship program due to a potential for two sets of customers to enter the program for one property	\$0.8m	SA Water
Customer Service	Additional customer service costs of maintaining two customers for one property	\$9.5m	SA Water
Billing	Costs of sending bills to two customers for one property	\$6.2m	SA Water

### 3.3 Requiring landlords to install certain water-efficient devices

#### 3.3.1 Summary

Under this option, landlords would be required to install water efficient products before being allowed to pass on charges to tenants.

In Queensland, tenants can be required to pay the full cost of water consumption only if the premises meet certain water efficiency standards. (For example, toilets must be dual-flush and showerheads, and all internal cold water taps, must have a flow rate no greater than nine litres per minute). If premises do not meet water efficiency standards, the lessor must pay only for a 'reasonable' supply of water. Similar requirements exist in New South Wales, where tenants are required to pay for water usage, provided the premises are separately metered and water-efficient.

The Commission has not undertaken a detailed CBA for requiring landlords to install certain water-efficient devices. This option falls outside the scope of the inquiry for the reasons listed below. However, the Commission has identified some of the costs and benefits of this option for stakeholders to consider.

### 3.3.2 Commission's considerations

#### 3.3.2.1 Reasons for not supporting this option

This option would require significant reform to landlord and tenant arrangements under the Residential Tenancies Act. The arrangements of landlords and tenants are beyond the scope of this inquiry, as they do not involve the pricing of drinking water and sewerage services provided by SA Water. The Attorney-General's Department is the appropriate body to consider these arrangements.

However, some of the benefits and costs are discussed below.

#### 3.3.2.2 Benefits

There would be two main benefits of this reform option. Installing efficient water devices would reduce tenants' consumption of water and would remove the split incentives for land owners. DCSI<sup>16</sup> and ASM<sup>17</sup> were supportive of introducing this requirement, as it would benefit tenants. COTA<sup>18</sup> and SACOSS<sup>19</sup> were also supportive, but believed that it requires further consideration. The District Council of Ceduna agreed that it may be beneficial where it is practicable but that, for some properties, it may be physically or financially prohibitive to install such devices.<sup>20</sup>

#### 3.3.2.3 Costs

Requiring landlords to install water-efficient devices would increase costs for both the Residential Tenancies Tribunal and landlords. While the costs of installing such devices would be borne by the landlord, it is likely that these costs would be passed on to tenants through increased rent. Landlords, tenants and the Tribunal would also incur additional

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<sup>16</sup> Department of Communities and Social Inclusion submission, p.3.

<sup>17</sup> Australasian Sub Meters submission, p.5.

<sup>18</sup> The Council on the Ageing SA, *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform*, 2013, p.4, available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx>.

<sup>19</sup> South Australian Council of Social Services, *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform*, 2013, p.5, available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx>.

<sup>20</sup> District Council of Ceduna, *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform*, 2013, p.9, available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx>.

costs, due to an increase in disputes arising from these matters. The REISA<sup>21</sup>, the RTT<sup>22</sup>, the Landlords' Association<sup>23</sup> and the Property Council<sup>24</sup> all expressed concerns about this option.

The RTT suggested that if a tenant was particularly concerned about water use, he or she should inquire about water-efficient devices before signing a lease. It also suggested that regulations be amended to effectively require a landlord not to unreasonably withhold consent for a tenant to install a water-efficient device to their premises.

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<sup>21</sup> Real Estate Institute of SA, *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform*, 2013, p.8, available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx>.

<sup>22</sup> Residential Tenancies Tribunal, *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform*, 2013, p.3, available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx>.

<sup>23</sup> Landlords' Association, *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform*, 2013, p.2, available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx>.

<sup>24</sup> Property Council of Australia (SA Division), *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform*, 2013, p.12, available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx>.



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](mailto:escosa@escosa.sa.gov.au) | W [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au)

