

APPENDIX 6: BILLING END USERS – DISTRIBUTIONAL IMPACTS OF REFORM RECOMMENDATION

*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), 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).

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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.

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GLOSSARY OF TERMS

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

Lessor	A person who grants or proposes to grant the right to occupy a retail shop under a retail lease
Non-residential Customer	A customer other than a residential customer
NPV	Net present value
Owner-occupier	a person who owns the house in which they live
PwC	PricewaterhouseCoopers Australia
REISA	Real Estate Institute of South Australia
Residential customer	A customer who acquires a retail service primarily for domestic use
RTT	Residential Tenancies Tribunal South Australia
SA Water	South Australian Water Corporation
SA Water customer	A person who owns land in relation to which SA Water provides a retail service and includes: <ul style="list-style-type: none"> • where the context requires, a person seeking the provision of a retail service; and • 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); and • a person of a class declared by the regulations under the Water Industry Act to be customers
SACOSS	South Australian Council of Social Service
Sewerage service	Has the same meaning as given to the term in the Water Industry Act
Tenancy agreement	An agreement under which a person grants another person, for rent, a right to occupy premises for the purpose of residence
Tenant	A person who rents, and occupies a house, from another for a period under a residential tenancy agreement
Water service	Has the same meaning as given to the term in the Water Industry Act

1. DISTRIBUTIONAL IMPACTS

1.1 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 the Commission's report, the Commission has considered the impact of billing end users 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 (**CBA**) for moving to end user billing, under a number of reform scenarios.

As a part of its CBA, the Commission has estimated a significant net benefit for the South Australian community from SA Water moving to end user billing. However, the change will impact on some parties more than others. The following sections summarise the main distributional impacts of the proposed reform to bill end users of water and sewerage services.

1.2 Impacts on tenants

Tenants would receive greater transparency if billed directly. They could also face a reduction in annual water usage charges, due to more efficient consumption and reduced leakage.

Under this option, tenants would face increased direct costs, as they would be billed for the Save the River Murray Levy and for sewerage charges. However, this should be offset by a decrease in rent, as landlords will no longer need to recover these costs. SA Water,¹ the Department of Planning, Transport and Infrastructure² and the Community Housing Council of SA³ expressed concern that moving towards a user-pays model would lead to tenants paying more for water. The Commission expects that the savings accruing to landlords would be passed on to tenants in time. This view is shared by the Real Estate Institute of SA.⁴

¹ 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>

² 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>

³ 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>

⁴ Real Estate Institute of SA, *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform, 2013*, p. 7; available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx>.

Tenants would gain access to the full suite of SA Water’s consumer protection measures. For example, they would receive regular bills containing detailed consumption and payment information, have access to flexible payment plans and bill smoothing arrangements, receive early notification of concealed water leaks, and gain access to SA Water’s financial hardship program.

Tenants would also gain access to SA Water’s dispute resolution process, reducing the costs they currently face in attending the Residential Tenancies Tribunal to have disputes heard.

SA Water may require tenants, as water customers, to pay additional charges upon moving in and out of a house, to cover the costs of special meter reads and disconnections. However, an equal saving would accrue to landlords, and would be passed back to tenants, over time, through lower rents.

The Residential Tenancies Tribunal expressed the reservation that this option may see the phasing out of arrangements where tenants have an annual allowance of water charges paid for by their landlord.⁵ This may result in some tenants facing increased costs. However, the phasing out of this option is likely to occur in any case under the recent revisions to the *Residential Tenancies Act 1995*, which has removed the annual allowance provisions where a tenancy arrangement is silent on water.

1.3 Landlords

Landlords would incur lower administration costs in on-billing tenants and attending disputes at the Residential Tenancies Tribunal. The manual processes of calculating and creating invoices to pass on water charges would no longer be required. Any cost savings made by landlords would be expected to flow through to tenants in the form of rent decreases (or smaller periodic rent increases through a transitional period). There would no longer be any outstanding water payments which landlords would seek to recover through the Tribunal.

In addition, the debt risk to landlords would fall, as tenants assumed ultimate responsibility for water accounts (discussed further in Appendix 5).

1.4 SA Water

SA Water would see reduced costs, due to lower demand resulting from reduced consumption and leakage. This would also result in a loss of revenue.

SA Water would improve its knowledge of its consumer base by billing end users. This would include greater insight into consumer behaviours. Currently, SA Water’s relationship is with the landowner. Information regarding the property is sourced from the valuation roll. A move to collect more customer/consumer-based information would improve SA Water’s relationships with its customers.

⁵ 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> .

The main cost to SA Water of this reform would be changes to its billing system and associated business processes. This includes costs associated with changes to SA Water's standard contract, privacy policy, and fraud and debt policies. SA Water would also need to develop processes for managing customers moving between properties. Another significant cost to SA Water flowing from this reform would be additional meter reading and billing for account finalisation for tenants. SA Water would also incur these costs when landowners sold and bought properties. However, the additional cost to SA Water for account finalisations for owner-occupiers has not been included in the CBA. Currently, conveyancers undertake this process when settling property transfers, and, hence, it is a cost transfer, rather than an additional cost. Further, account finalisation costs to SA Water (previously incurred by conveyancers) would be avoided when a tenanted property was sold and the tenant did not change. Refer to PricewaterhouseCoopers' report for further information on SA Water business impacts arising from this reform recommendation.⁶

This reform recommendation could also increase the potential for bad debt and debt write-offs (assuming tenants are a riskier category of customers than land owners). This cost is discussed further in Appendix 7).

⁶ See analysis carried out by PWC, available at: http://www.escosa.sa.gov.au/library/140711-WaterInquiry-BillingPlatformEstimates-PwC-ConsultantReport_1.pdf



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