

MEDIA RELEASE

Water and Sewerage Pricing Reform: Draft Report Released



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The Essential Services Commission of SA (ESCOSA) today released a draft report for public consultation, putting forward a broad suite of potential reform options for SA Water's pricing structures and related charging arrangements.

ESCOSA's Chairperson, Dr. Pat Walsh, says the draft report is the result of an 18-month inquiry, referred to ESCOSA by the State Treasurer. The Inquiry stems from the South Australian Government's Water for Good plan, which identified pricing reform as a key element in ensuring long-term water security and efficiency for South Australia

Dr. Walsh says the draft report has been prepared following extensive public consultation and is designed to inform public debate on potential reform options for SA Water's water and sewerage prices in metropolitan and regional South Australia.

"ESCOSA's inquiry has a very specific focus – to look at possible ways in which pricing could be made more economically efficient to maximize growth of the South Australian economy. While social and environmental considerations are of course extremely important, they are out of scope for this inquiry" he said.

"ESCOSA's job in this case was to look at whether water prices could be better structured within the parameters of SA Water's existing annual revenue base."

"While a key objective of ESCOSA is to promote the lowest sustainable prices of essential services, the potential reform options are definitely not a plan to simply reduce water and sewerage bills."

ESCOSA has been asked to pose the question: Is there an argument that because South Australia has security-proofed its water supply for the long term, is it now time to reform these pricing structures?

Against this, the draft report examines what water prices could look like if they reflected the true cost of water used by the vast majority of South Australians.

It considers how SA Water prices the **usage** and the **supply** of water – and whether there are more cost-reflective ways to charge for both.

ESCOSA's draft report estimates that the true cost of water usage by Adelaide metropolitan households and businesses may be about 62 cents per kilolitre (Kl: 1000 litres). Currently, the average **usage** price paid for water is \$2.96 per Kl. At the same time, if usage charges were set at that level, to achieve the same revenue outcomes for SA Water, supply charges would need to increase by around three times their current levels.

Dr. Walsh said this is a demonstration that the current charges have, over time, moved away from cost-reflective levels.

“In short, consumers are paying fixed **supply** infrastructure costs through **usage** charges and that is not economically efficient.”

From an economic efficiency perspective, the pricing structure as it has evolved disadvantages high-volume commercial users of water.

The draft report found that there is a potential for business activity to grow by an estimated \$30 million to \$40 million a year over the longer term in South Australia, if a more cost-reflective water pricing scheme was adopted.

However, under that reform scenario, there would be winners and losers.

In effect, more economically efficient prices would lead to a dismantling of the cross subsidisation of water prices between residential and commercial/industrial users.

As a result, sudden implementation of these reforms could disadvantage householders in particular, which is why the draft report has also laid out options for a gradual introduction of any reforms, should they be adopted.

ESCOSA’s draft report proposes a range of other reforms.

It recommends creating a direct relationship between tenants and SA Water that will deliver customer rights not currently available to them.

It also recommends moving away from property value-based sewerage charges, which do not reflect SA Water’s sewerage costs and are not economically efficient.

Dr. Walsh said that, in the final analysis, it will be for the Government, following public consultation, to choose which options to adopt, abandon or amend.

Copies of the draft Inquiry report are available on the Commission’s website at:

www.escosa.sa.gov.au

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The Essential Services Commission is the independent economic regulator of essential services in South Australia. The Essential Services Commission’s primary objective is the protection of the long-term interests of South Australians.

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