



Draft Inquiry Report: Inquiry into Reform Options for SA Water's Drinking Water and Sewerage Prices - July 2014

DRINKING WATER USAGE CHARGES

Draft findings

1. Consistent with the findings of the 2009 Water for Good plan, economic efficiency can be enhanced through setting cost-reflective drinking water usage charges.
2. The marginal cost to SA Water of supplying drinking water has fallen since the commencement of the Adelaide Desalination Plant. SA Water's current usage charges do not reflect that lower cost.

Draft recommendations

1. To enhance economic efficiency, a single usage charge based on the long-run marginal cost of water supply should be adopted. The Commission estimates the LRMCM of supply to Greater Adelaide to be around 62c per kL.
2. There should be flexibility to allow usage prices to increase to the short-run marginal cost (SRMC) of water supply during any future periods of emerging water scarcity. If water usage charges are increased at those times, supply charges should be reduced to ensure there is no over-recovery of revenue.
3. Any concessions provided by Government to SA Water's customers should not be delivered as a subsidised water usage charge. To ensure that usage charges remain cost-reflective, they should be delivered through fixed payments.

DRINKING WATER SUPPLY CHARGES

Draft findings

3. Economic efficiency is promoted by ensuring that fixed costs are allocated to those that are responsible for them.
4. Economically efficient drinking water supply charges should recover the prudent and efficient costs of maintaining and replacing connection and distribution infrastructure and ongoing account management costs, plus any bulk water supply, treatment and transmission costs not recovered by long-run marginal cost-based usage charges.
5. Capacity-based charging is the most cost-reflective way to set SA Water's drinking water supply charges.
6. If usage charges are reduced to cost-reflective levels, drinking water supply charges would need to increase significantly assuming SA Water recovers the same amount of revenue. This would lead to bill increases for most residential customers while large water users may receive lower bills.

Draft recommendations

4. Drinking water supply charges should be based on the size of a water meter, which is a measure of a customer's capacity requirements and is therefore cost reflective.
5. All cost inputs to supply charges should be prudent and efficient and reviewed by the relevant decision-maker (whether the Commission or Government) on a regular basis.
6. Connection charges should be set to recover efficient connection and account establishment costs, and disconnection charges should be set to recover efficient disconnection and account finalisation costs.
7. Development connection and augmentation charges should be set to recover all efficient costs driven by developer requirements.

REGIONAL DRINKING WATER CHARGES

Draft findings

7. Differentiating water usage charges by region would further enhance economic efficiency, albeit only by a small amount relative to applying a statewide LRMC-based usage charge.
8. There is unlikely to be any net benefit in setting water supply charges on a regional basis based on existing fixed assets, although there may be benefits in allocating future fixed costs to regional customers to promote efficient investment decisions.

Draft recommendations

8. Consideration should be given to regional usage charges based on the long-run marginal cost of each region, noting that the additional economic benefits are small.
9. Drinking water supply charges should initially be set on a statewide basis. For all new investments in a particular region that are not reflected in the long-run marginal cost or other fixed charges, the supply charge for that region should reflect those investments. This would result in supply charges diverging across regions over time, as assets are added or removed from each region.

SEWERAGE CHARGES

Draft findings

9. SA Water's sewerage costs are largely independent of sewage volumes and there is no economic basis for volumetric sewerage charges.
10. Capacity-based charging is the most cost-reflective way to set SA Water's sewerage charges.

Draft recommendations

10. Sewerage charges should be set to recover the prudent and efficient costs of maintaining and replacing all sewerage infrastructure and ongoing account management costs.
11. Sewerage charges should reflect the 'capacity requirement' a customer places on the sewerage system, not the value of the property. The most appropriate reflection of capacity is the size of the sewerage connection.
12. Sewerage augmentation charges should be set to recover all efficient costs driven by developer requirements.
13. Sewerage connection charges should be set to recover efficient connection and account establishment costs, and disconnection charges should be set to recover efficient disconnection and account finalisation costs.

REGIONAL SEWERAGE CHARGES

Draft finding

11. There is unlikely to be any net benefit in setting sewerage charges on a regional basis based on existing fixed assets, although there may be benefits in allocating future sewerage costs to regional customers to promote efficient investment decisions.

Draft recommendation

14. Sewerage charges should initially be set on a statewide basis. For all new investments in a particular region that are not reflected in other fixed charges, the sewerage charge for that region should reflect those investments. This would result in sewerage charges diverging across regions over time, as assets are added or removed from each region.

TRADE WASTE CHARGES

Draft finding

12. Unlike other sewerage customers, there is a volumetric cost imposed by trade waste customers and long-run marginal cost -based charging is the most economically efficient way to set trade waste charges.

Draft recommendations

15. Trade waste charges should continue to be based on volume and load, set with reference to long-run marginal cost.
16. SA Water should revisit its 'flow' trade waste long-run marginal cost estimate for Bolivar, which is set too high.
17. All of SA Water's remaining trade waste long-run marginal cost estimates, for non-flow parameters, should be independently reviewed before being implemented.

REGIONAL TRADE WASTE CHARGES

Draft finding

13. The price of trade waste disposal should depend upon the long-run marginal cost at each individual sewerage catchment.

Draft recommendation

18. Until long-run marginal cost estimates have been developed for individual sewerage catchments, trade waste prices should be set with regard to the long-run marginal cost at Bolivar, which accepts 97 per cent of trade waste volume.

BILLING END-USERS

Draft finding

14. There are net economic benefits in SA Water having a direct contractual relationship with end-users rather than land-owners, as is currently the case.

Draft recommendation

19. The end-user of a retail service, rather than the owner of the premises to which that retail service is supplied, should be SA Water's customer for that retail service.

DEBT RISK AND DEBT SECURITY

Draft finding

15. The existing rights granted to SA Water to secure and recover debt imposes unreasonable risks on land-owners and is inappropriate if the end-user becomes SA Water's customer.

Draft recommendation

20. The current provisions in the Water Industry Act, which confer on SA Water the right to secure debts through a statutory charge on land, and the right to sell land to satisfy a debt, should be repealed.

NON-CONNECTED PROPERTIES

Draft finding

16. Customers that choose not to connect to SA Water's network should not be required to pay a fixed charge to SA Water.

Draft recommendations

21. Customers should only be charged for a water and sewerage service if they enter into an agreement with SA Water to become a customer.
22. Customers should be able to cease being a customer of SA Water subject to providing reasonable notice and paying appropriate disconnection and account finalisation fees.

INDIVIDUAL METERING

Draft finding

17. The costs of installing water meters to all properties that are currently not metered would outweigh the associated benefits.

Draft recommendation

23. The installation of individual water meters to group-metered properties, both retrofit and new properties, should be optional (i.e. maintain the status quo).

SMART METERING

Draft finding

18. The cost of mandatory smart water meters outweigh the benefits to consumers.

Draft recommendation

24. Smart water-metering should be optional (i.e. maintain the status quo).

WATER PLANNING AND MANAGEMENT COSTS

Draft finding

19. Current water planning and management charges paid by SA Water's customers may not be economically efficient.

Draft recommendations

25. The Government should consider commissioning an independent public review of the prudence and efficiency of all water planning and management-related costs incurred by SA Water, including the manner in which they are recovered.
26. Until such a review is conducted, SA Water should make clear on customers' bills that a water planning and management payment is being collected through them – and that it is being done for the benefit of the wider South Australian public.

IMPLEMENTATION/TRANSITION ISSUES

Draft finding

20. Moving to economically efficient prices would lead to significant bill impacts for many customers, due to the unwinding of cross-subsidies that currently exist.

Draft recommendations

27. The Government should consider transitional arrangements, to smooth the bill impacts of reform.
28. The Government should consider ongoing implementation issues, including a review of the concession/exemption scheme to ensure that subsidies are targeted and effective.

FUTHER INFORMATION

The Essential Services Commission of SA (**the Commission**) invites written submissions from all members of the community on the draft Inquiry report. Written comments should be provided by 10 September 2014.

Any queries relating to the draft Inquiry report into the Reform of SA Water's Drinking Water and Sewerage Prices should be directed to:

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The Essential Services Commission of South Australia is an independent economic regulator of 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.

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