

10 September 2014



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RE: Draft Report - Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform

Dear Nathan,

The Conservation Council of South Australia appreciates the opportunity to comment on Draft Inquiry Report into Reform Options for SA Water's Drinking Water and Sewerage Prices.

Conservation Council SA is an independent, non-profit and strictly non-party political organisation representing around 50 of South Australia's environment and conservation organisations and their members. Conservation Council SA has developed a comprehensive view of environment policy in *South Australia in a Changing Climate: A Blueprint for a Sustainable Future*¹. This document sets out, at a strategic level, policy positions in six key environmental areas, including water issues.

The Conservation Council SA in November 2013 provided a comprehensive submission to assist in informing this inquiry. In this submission, concerns were expressed that the economic regulatory framework under which SA Water operates, has narrow objectives in relation to environment and sustainability issues. This results in constraints on maintaining SA Water's environmental performance in the many aspects of their work that are not mandated under law or agreements.

We identified the need to maintain and increase the volumetric charge component of drinking water (and an extension of this to charging for sewerage services) as an essential component of environmental sustainability. We regard this as a key element of using resources efficiently. We also detailed our concerns that there is an

¹ <http://www.conservationsa.org.au/blueprint.html>

absence of defined sustainability or environmental performance standards agreed with Government to guide SA Water.

In this submission we briefly expand on the need to recover the costs of taking actions towards achieving all components of sustainability including the costs of producing water, the cost of meeting customer expectations and the cost of delivering environmental performance.

Incentive to conserve water, recycle and develop stormwater harvesting - virtually extinguished

The draft Recommendation to drastically cut the water usage component and transfer this to the drinking water supply charge is not supported for the following reasons:

- It is not economically prudent to artificially load the charges for drinking water supply services to compensate for the lower water usage charge for the purpose of maintaining a zero overall change to SA Water income.
- We do not believe that this decision to reduce consumption based pricing is in accordance with the National Water Initiative Agreement (2004) to:
 - **64 v)** avoid perverse or unintended pricing outcomes;
 - bring into effect pricing policies for water storage and delivery in rural and urban systems that facilitate efficient water use and trade in water entitlements, including through the use of: **65 i)** consumption based pricing
 - **73 ii)** continue to examine the feasibility of using market based mechanisms such as pricing to account for positive and negative environmental externalities associated with water use; and
 - **73 iii)** implement pricing that includes externalities where found to be feasible.
- The change to a much lower usage charge is likely to result in a significant collapse of water recycling, rainwater and stormwater harvesting projects across South Australia. This impact of this consequence has not been properly evaluated to quantify the lost opportunities, loss of jobs from the diverse range of schemes and projects that are being undertaken by households, communities and businesses.
Most consumers including councils and business cannot escape from the need to have an SA Water connection to maintain security off supply. For these customers, the cost of a water efficiency or alternative recycling/harvesting project is therefore in competition **with the usage component only**. Where a larger proportion or indeed most of a water bill is comprised of the fixed charge, then these alternative schemes are much

less viable. The proposal would therefore create an unfair barrier to alternative sustainable water supply projects.

A dis-integrated approach to determine water pricing

In the Draft Report, ESCOSA has stated that:

“The Commission emphasises that this Inquiry is cast in terms of economic efficiency and water security considerations. While issues of social and environmental policy are fundamentally important to overall policy decisions and directions in water and sewerage pricing and reform, debate on those matters is outside of the scope of this Inquiry”.

Sadly, this approach lies at the heart of the problem. Whilst an economic approach may consider that such a review is not concerned with fairness, distribution or environmental sustainability, there is a void of social and environmental advice and standards that would enable our political decision makers to make an informed determination. There is no corresponding Environmental Sustainability Pricing Review and there is no Social Pricing Review that has been undertaken to determine the best approach to water pricing.

The consequence of an economics only approach is that the recommendations of this report lack any social license to be implemented.

Environmental Externalities – Continue to be externalised.

The concept of dealing with externalities in the Water sector is to: assess the harm of environmental impacts caused by industry activities; quantify and describe this harm to environment and other stakeholders, and then; internalise the cost of this harm into water pricing. Naturally, if the cost of preventing such harm is less than the broader cost to environment and society there are significant savings to be made by avoiding un-necessary harm.

The National Water Commission Agreement (2004) recognised the importance of managing externalities but to date, there has been a selective approach in regard to which externalities are addressed. Whilst significant steps have been made to deal with the over allocation of water, many other aspects of environmental externalities have not progressed beyond legal compliance. There is a sizeable gap between legal compliance for environmental performance and pricing that internalises environmental externalities.

In this submission, we address just three examples where it can be argued that the proposed water pricing approach does not provide for adequate environmental performance.

Overall Environmental Performance Standards

Whilst SA Water has a customer charter, its environmental management standards across all aspects of activities is not as open and transparent.

There are isolated commitments (such as the Climate Change Sector Agreement and 20,000 trees planted per year), and license requirements, but these do not sit within a single environmental performance standard. Documents such as the Corporate Environmental Management Plan are not publicly available and therefore progress towards achieving targets and actions of this plan are not visible.

For the water usage charge to be set at any level, it is important for ESCOSA, the State Government and other stakeholders to have full knowledge of the environmental performance and standards that will be maintained at the level of funding facilitated by the recommended pricing structure and recommendation.

Sea grass loss

Together with stormwater and industrial pollution, SA Water (formerly the E&WS) activities since the early 1900s have contributed to the loss of seagrasses in Gulf St Vincent. Whilst improvements in treatment and recycling have now lowered the pollutant loads into the Gulf, there is approximately 5,200 hectares of seagrass meadows that should be re-established.

Work has been undertaken in sandbag trials and to assessing 'seagrass ready areas' where re-establishment work could be targeted, but on-ground recovery efforts remain extremely small. Funding is often presented as a barrier to larger trials.

With any re-vegetation effort, revegetation success occurs when larger scale areas are planted, compared with planting isolated plants. Even the 2,000 sandbag trial announced earlier this year is too small an effort to establish cumulative plant protection to begin to have a sizeable area of seagrass revegetation to demonstrate whether the thousands of hectares can be restored.

Water and Sewage Pricing should incorporate the necessary cost to undertake all necessary research and larger scale trials, whilst making provision to ramp up the revegetation effort to cover the cost of broad acre seagrass recovery for the proportion of loss that SA Water is responsible for.

Weed Management

SA Water is responsible for managing large areas of land in its catchments and treatment plant sites. Whilst there are regulations that cover declared pest plants and animals, there is no specific standard or performance agreement to which SA Water would manage its land holdings.

On SA Water's *Environmental Commitments* Web Page, the SA Water states that:

It is critically important that the integrity of land around our reservoirs is protected to retain water quality, so much work is done to remove plants such as furze and broom. These programs are undertaken on a systematic basis with repeated annual control and follow up until the species is eliminated".

Despite this commendable statement and visible signs of work done by SA Water staff and external volunteer groups, there is not a consistent standard of weed control. In many locations from public roads it can be seen that SA Water is not making progress to control heavily infested areas and to prevent the further spread of weeds.

We do not believe that water pricing recommendations as proposed can provide an adequate level of funding for weed control programs without an agreed standard that would outline performance indicators such as the density of particular weed species per hectare or the complete elimination of high risk and emerging weed species on SA Water managed land.

Other comments

The Conservation Council SA welcomes the recommendation to move away from the value of property charging for sewerage charges.

Our previous submission recommended that water consumption be used as a proxy indicator (with adjustment to deduct the outdoor water estimate etc.) of wastewater disposal through the sewerage system, and we note that this approach is being used in other jurisdictions. Such an approach is important to preserve the incentive to conserve water to use resources efficiently.

We note that ESCOSA has recommended a capacity based charge which is again dis-integrated from water consumption. We would however like to suggest that could be a hybrid approach that covers both the size of connection and the water consumption within the same property in determining the sewerage services charge.

We would be happy to discuss our submission with you in more detail.

Kind regards

A handwritten signature in blue ink, appearing to read 'Craig Wilkins', with a stylized flourish at the end.

Craig Wilkins

Chief Executive
Conservation Council SA