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Inquiry into Reform Options for SA Water's Drinking Water and  
Sewerage Prices - Draft Inquiry Report  
Essential Services Commission of South Australia  
GPO Box 2605  
ADELAIDE SA 5001

Dear Sir/Madam

**RE: INQUIRY INTO REFORM OPTIONS FOR SA WATER'S DRINKING WATER AND  
SEWERAGE PRICES - DRAFT INQUIRY REPORT**

The Australian Industry Group (Ai Group) welcomes the opportunity to respond to the draft Inquiry Report. Ai Group is a peak industry association in Australia which, along with its affiliates, represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food and transport. Ai Group members consist of small, medium and large users of water and wastewater services across South Australia.

Ai Group welcomes the setting of charges for both water and wastewater services at more cost reflective levels. The current economic environment is placing pressure on local production costs and is challenging many businesses. The first independent revenue determination for SA Water, saw substantial price increases for water and wastewater services over the period 1 July 2013 to 30 June 2016, will further challenge business.

Ai Group welcomes the Inquiry in relation to price structures and associated charges. In particular we support the Inquiry objective to ensure that charges for the non-residential sector are transparent and do not subsidise other customers.

The draft report identified the opportunity to move towards lower usage charges, while concurrently increasing supply charges. Whilst Ai Group supports changes to the pricing structure, incentives are also needed to encourage the efficient use of water. A substantial increase in supply charges is unlikely to provide a financial incentive for non-residential customers to reduce water use. A better balance between usage and supply charges will provide an ongoing and important incentive to reduce water use.

Ai Group was concerned by the draft report finding that the cost-reflectiveness of water pricing could be improved by basing supply charges on customer capacity requirements (by meter size), rather than charging the current flat rate. An incentive needs to be provided to encourage industrial water users to reduce their water charges including fixed charges. If a fixed charge was to be based on meter size, a simple and cost effective process needs to be established to enable non-residential customers to down size their meter if they reduce their water use. This would provide an incentive to reduce water use and their fixed charge accordingly.

The draft report identified that current volume and load-based trade waste charges are not recovering costs imposed by trade waste customers. As such, these costs unfortunately have to be subsidised by other sewerage customers. To overcome this problem ESCOSA recommended moving to Long Run Marginal Cost (LRMC) based pricing for trade waste as soon as possible. Whilst we support efforts to address this problem, the move to LMRC based pricing for trade waste customer's needs to be implemented as part of a package of changes to ensure charges for both water and wastewater services are set at more cost reflective levels for all users. The objective of this package of changes should be to ensure that non-residential customers are not subsidising residential water users and vice versa.

Reforms to pricing structures and associated charges provide an opportunity to improve the transparency of pricing and charging models and eliminate issues of cross-subsidisation. Changes should result in reduced costs and improved competitiveness for business in South Australia.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S. Myatt', written over a circular stamp or seal.

**Stephen Myatt**  
Director – SA Branch