

# ESCOSA DRAFT ENQUIRY REPORT – DRINKING WATER AND SEWERAGE PRICES

## 1 COOPERS BREWERY CURRENT SITUATION

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### 1.1 WATER

Coopers Brewery moved to its current site in Regency Park in 2001. Brewing requires large quantities of potable water and produces Trade Waste containing organic compounds.

When the Brewery relocated, Coopers was encouraged by PIRSA to look at alternate water sources to reduce its offtake of mains water. It was identified that there was the potential to use ground water from aquifers below the site. Investigations showed that the only feasible aquifer which could sustain Cooper's requirements was the T2 Aquifer located approximately 200 meters below ground level. However this aquifer contained brackish water (>4,000mg/l) which would require treatment through a Reverse Osmosis (RO) Plant to make it usable for brewing.

Coopers drilled 3 bores into the aquifer (currently 4 bores) and installed a RO Plant to provide the majority of the Brewery's water requirements. This was a significant capital investment.

Coopers also established a mains water supply as a back-up to the RO Plant and has used a quantity of mains water for domestic and process uses.

Coopers pays the standard supply and usage charges for any mains water used.

### 1.2 TRADE WASTE

Trade Waste is discharged from the site to the SA Water sewer located along Regency Road and ultimately is treated at Bolivar.

Coopers has an Industrial Trade Waste Discharge Permit issued by SA Water which governs the volume and composition of the Trade Waste discharged to sewer.

Trade Waste was initially charged based on the ratable value of the site and in 2001-02 this was approximately \$22,000. However SA Water introduced "User Pays" charges in 2004 with the increased charges phased in over 5 years. The introduction of "User Pays" charges plus above CPI annual increases has meant that Trade Waste costs have increased to nearly \$400,000 per annum.

At the time of the introduction of "User Pays" charges in 2003 SA Water stated they were based on "Full Cost Recovery" and provided a Transparency Statement to justify what were at that time a 1,000% increase in Trade Waste costs.

## 2 COOPERS BREWERY – EFFECT OF ESCOSA PROPOSALS

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### 2.1 MAINS WATER

The mains water supply to Coopers has been sized to be able to supply all of the Brewery's requirements in the event of a failure of the RO Plant. There are two connections, one with a 100mm meter and one with a 150mm meter.

Under the ESCOSA proposals this would result in a high supply charge relative to the usage of water. However it would result in an overall reduction of mains water costs.

### 2.2 TRADE WASTE

Three different cases have been modelled. The first is based on the current 2014-15 SA Water tariffs, the second on the ESCOSA proposals and the third on SA Waters LRM charges. The proposed rates used are identical other than charge for Flow is significantly lower under the ESCOSA proposal.

The modeling is based on Coopers actual discharges to Trade Waste for the 2013-14 Financial Year and applying the appropriate rates for the 3 cases.

### 2.3 SUMMARY OF COSTS (2014-15 = 100%)

	SUPPLY	USAGE	TOTAL
TRADE WASTE CHARGES ESTIMATES - 2014-2015	N/A	100%	100%
WATER CHARGES ESTIMATES - 2014-2015	100%	100%	100%
TOTAL SA WATER CHARGES - 2014-2015			100%
TRADE WASTE CHARGES ESTIMATES - ESCOSA LRM	N/A	309%	309%
WATER CHARGES ESTIMATES - ESCOSA LRM	755%	19%	49%
TOTAL SA WATER CHARGES - ESCOSA LRM			212%
<b>TOTAL SA WATER CHARGES - ESCOSA LRM-INCREASE</b>			<b>112%</b>
TRADE WASTE CHARGES ESTIMATES - SA WATER LRM	N/A	405%	405%
WATER CHARGES ESTIMATES - SA WATER LRM	755%	19%	49%
TOTAL SA WATER CHARGES - SA WATER LRM			271%
<b>TOTAL SA WATER CHARGES - SA WATER LRM-INCREASE</b>			<b>171%</b>

## 3 COOPERS BREWERY – EFFECT OF ESCOSA PROPOSALS

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### 3.1 COST INCREASES

The significant cost increases that would result from the introduction of the ESCOSA proposals would have a detrimental effect on Coopers.

The beer market is highly competitive with both domestic and import competitors supplying a shrinking market. Per capita beer consumption has decreased in every year since 1975. There continues to be increasing market pressure from wine and other beverages.

It would not be feasible to recover the increased costs from price increases which would therefore result in a reduction in profitability.

The cost increase for Trade Waste from 2001-02 and the possible future costs under the SA Water LRMC is 6,900%. South Australian manufacturing cannot sustain such increases.

### **3.2 INTERSTATE COMPETITION**

Over 60% of Coopers Australian beer sales are outside of South Australia. Increases in manufacturing costs in South Australia would put Coopers at a disadvantage to our main competitors who produce and sell in the other States. This would be on top of other cost disadvantages such as interstate freight costs.

Coopers has continued to expand its production capacity in South Australia rather than looking at alternative production opportunities interstate where our volume growth is. This was based on an understanding that the SA Government was looking to make doing business in South Australia more competitive.

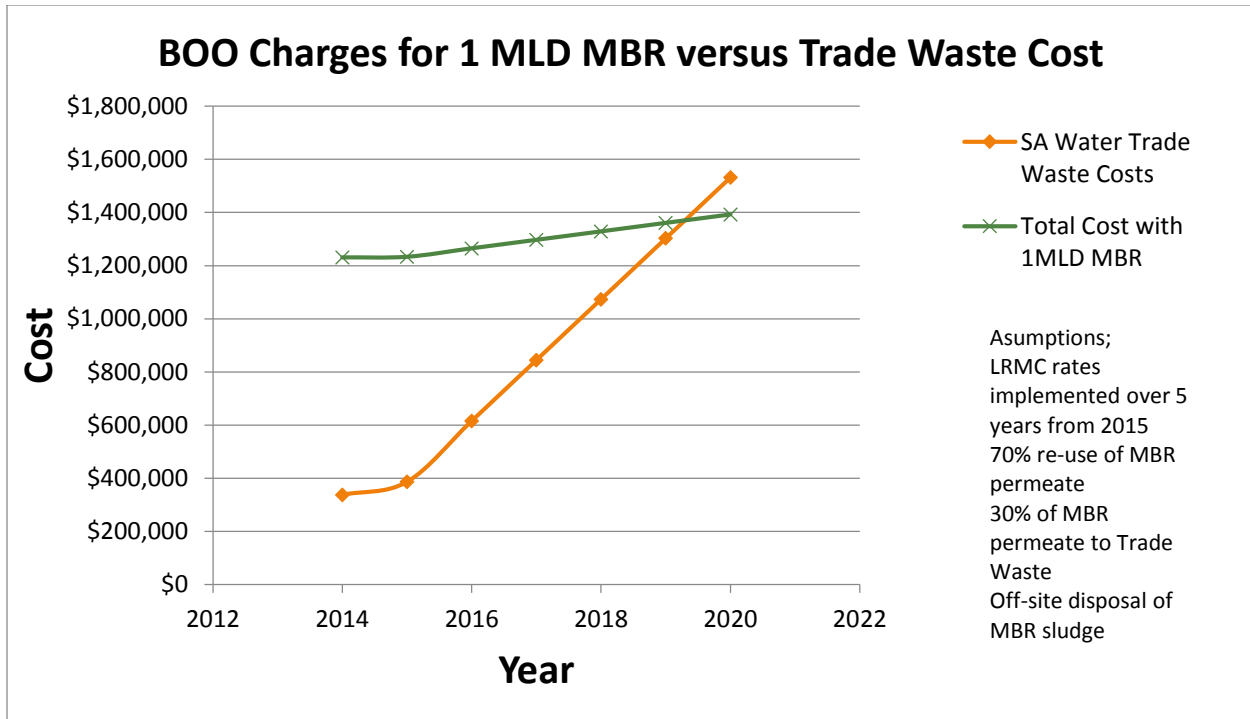
### **3.3 COST NEUTRALITY**

One premise in ESCOSA's study was that changes to water and sewage charges should not change SA Water's revenue from these activities.

This however would not be the case for Coopers with significant adverse effects. This is exacerbated by Cooper's decision, encouraged by PIRSA, to invest in an alternative water supply for the Brewery. The modest reductions in mains water charges does little to offset major increases in Trade Waste charges.

### **3.4 ON SITE TREATMENT OF TRADE WASTE**

Coopers has been working with a reputable local supplier of Waste Water Treatment plants on the capital and operating costs of installing a plant on the Coopers site to treat Trade Waste. Preliminary designs for a MBR Plant which would produce a treated waste water stream suitable for non-brewing applications have established that if Trade Waste charges increase by more than 85% over the current 2014-15 rates it will become economical for Coopers to install a plant. This is not Coopers preference, our focus is on making quality beer, not treating waste water.



There are two significant aspects to this conclusion;

- If Coopers can economically operate a small scale plant at this level of charges/costs, then the cost of operating a large plant such as Bolivar should be significantly lower.
- If Coopers installed a plant then this would significantly lower the charges it paid to SA Water for Trade Waste. (There would still be some residual charges as not all of the treated waste water could be used at the Brewery). Escosa identified that the cost to SA Water of providing sewerage/Trade Waste services is largely fixed and independent of volume. Therefore installation of onsite treatment plants would reduce SA Water's income without a consequential reduction in costs.