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30 September 2014

Mr Stuart Peevor
Manager, Pricing & Access
The Essential Services Commission of South Australia
GPO Box 2604
ADELAIDE SA 5001

Dear Mr Peevor

Local Government Association (LGA) Submission to SA Water Inquiry

The LGA welcomes the comprehensive economic review that has been undertaken by ESCOSA in to SA Water's retail drinking water and sewerage services. It is important that this type of review is undertaken from time to time to ensure that Government and the community have an understanding of how we pay for these essential services.

It is recognised that the terms of reference for the review have restricted ESCOSA to a pure economic assessment of SA Water pricing, however it is widely understood that pricing essential services such as water takes into account not only economic principles but also social and environmental objectives.

The LGA does not believe that the recommendations presented in the draft report should be adopted without comprehensive analysis of the impacts on the community and the environment. What may be the most economically efficient approach may not be considered fair for sections of the community or lead to best environmental outcomes. This is emphasised by the rather low level of response the LGA has received from Councils. Simply, the impacts of an economic review are difficult to consider in isolation from other factors, and further information is needed to make a balanced assessment.

The LGA also notes the limitation that was placed on ESCOSA regarding the revenue target of SA Water. The exclusion of this fundamental economic indicator seems counter-intuitive when undertaking an economic review that seeks to identify the real cost of providing water and sewerage services. To maintain the revenue targets does not provide for a completely transparent assessment.

Councils are relatively new entrants into the business of providing retail water services and our systems and regulatory responsibilities are growing, including economic and pricing principles. However our understanding and management of risks to the community, the environment and wider societal impacts of water is acute. Local Government has a long history in promoting, practicing and advancing sustainable water use practices. Local Government deals on a daily basis with the challenges of community members struggling with the cost of essential utilities.

The LGA believes that the review's terms of reference which disregards the long standing social and environmental drivers as influencing factors for pricing, has led to a low level of interest in the review from the Local Government sector. This was reinforced by significant negative political commentary from State Ministers following the release of the draft report.

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In response to the draft report, the LGA would like to provide the following specific comments. However it should be noted that if any of the recommendations were to be adopted, there may be implications for Councils that would need to be thoroughly examined and appropriate transitional provisions implemented to minimise any potential negative outcomes.

Cost reflective usage charges and supply charges based on meter size

This is a key area of concern for Local Government. Changing to an increased fixed charge and lower usage charge could have both negative and positive effects depending on a Council. A positive would be where a Council uses a significant amount of water such as for irrigating open space. Depending on what the fixed charge would be based on water meter size it is likely that there would be a net benefit from a reduced usage charge.

However, many Councils have made significant investment in stormwater capture and reuse schemes on the basis of the current SA Water prices and pricing regime. A change to the prices and/or the regime would see detrimental effects on the Councils' investments. This would likely have negative effects on a Councils' ability to be a competitive player in the market, should the usage charge be reduced as recommended.

SA Water Pricing Parity

Changes to SA Water's 'Pricing Parity' impacts on funding arrangements between SA Water and Local Government for funding CWMS schemes. The subsidy allows for a Council to implement a scheme and then charge a customer what would reasonably be expected if SA Water were to deliver the service. Any changes to pricing parity either directly or indirectly through implementation of the recommendations in the Inquiry report would need consideration due to the potential financial impacts and resulting market effects.

There is also concern that shifting away from pricing parity would adversely affect regional areas where water is far scarcer than in Metropolitan Adelaide. For regional areas to thrive and continue economic and social development, access to affordable water and sewerage systems is vital. Any shift away from this would disadvantage regional communities that rely on a state-wide pricing system to ensure affordability of water. Water is an essential service for communities and to price it based on scarcity may make it unaffordable in regional areas.

It is particularly difficult for the LGA to comprehend the full implications of the recommendations in the report at this point without further work being undertaken to assess the triple bottom line impacts. The LGA looks forward to considering the Government's response to the review and potentially what, if any recommendations are adopted and when.

For further information regarding this submission or the LGA's position, please contact Simon Thompson - Policy Officer, Environment on 8224 2049 or simon.thompson@lga.sa.gov.au.

Yours sincerely



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