

APPENDIX 2: BILLING END USERS – DISTRIBUTIONAL IMPACTS OF REFORM RECOMMENDATION

*Final Inquiry Report: Inquiry into Reform Options for
SA Water's Drinking Water and Sewerage Prices*

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1. DISTRIBUTIONAL IMPACTS

1.1 Introduction

The Inquiry has considered the impact of billing end users of water and sewerage services (rather than the owner of land).

In doing so, it undertook cost benefit analyses (**CBA**) for moving to end user billing, under a number of scenarios.

As a part of that CBA, the Inquiry has estimated a significant net benefit for the South Australian community from SA Water moving to end user billing. However, the change will impact on some parties more than others. The following sections summarise the main distributional impacts of the proposed reform to bill end users of water and sewerage services.

1.2 Impacts on tenants

Tenants would receive greater price and cost transparency if billed directly. They could also see a reduction in annual water usage charges, due to more efficient consumption and reduced leakage.

Under this option, tenants would face increased direct costs, as they would be billed for the Save the River Murray Levy and for sewerage charges. However, this should be offset by a decrease in rent, as landlords will no longer need to recover these costs. SA Water,¹ the Department of Planning, Transport and Infrastructure² and the Community Housing Council of SA³ expressed concern that moving towards a user-pays model would lead to tenants paying more for water. However, it may be expected that the savings accruing to landlords would be passed on to tenants in time. This view is shared by the Real Estate Institute of SA.⁴

Tenants would gain access to the full suite of SA Water's consumer protection measures. For example, they would receive regular bills containing detailed consumption and payment information, have access to flexible payment plans and bill smoothing arrangements, receive

¹ SA Water, *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform, 2013*, p.21, available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx>

² Department of Planning, Transport and Infrastructure, *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform, 2013*, p 4, available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx>

³ Community Housing Council of SA, *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform, 2013*, p.3, available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx>

⁴ Real Estate Institute of SA, *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform, 2013*, p.7, available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx>.

early notification of concealed water leaks, and gain access to SA Water’s financial hardship program.

Tenants would also gain access to SA Water’s dispute resolution process, reducing the costs they currently face in attending the Residential Tenancies Tribunal to have disputes heard.

SA Water may require tenants, as water customers, to pay additional charges upon moving in and out of a house, to cover the costs of special meter reads and disconnections. However, an equal saving would accrue to landlords, and would be passed back to tenants, over time, through lower rents.

The Residential Tenancies Tribunal expressed the reservation that this option may see the phasing out of arrangements where tenants have an annual allowance of water charges paid for by their landlord.⁵ This may result in some tenants facing increased costs. However, the phasing out of this option is likely to occur in any case under the recent revisions to the *Residential Tenancies Act 1995*, which has removed the annual allowance provisions where a tenancy arrangement is silent on water.

1.3 Landlords

Landlords would incur lower administration costs in on-billing tenants and attending disputes at the Residential Tenancies Tribunal. The manual processes of calculating and creating invoices to pass on water charges would no longer be required. Any cost savings made by landlords would be expected to flow through to tenants in the form of rent decreases (or smaller periodic rent increases through a transitional period). There would no longer be any outstanding water payments which landlords would seek to recover through the Tribunal.

In addition, the debt risk to landlords would fall, as tenants assumed ultimate responsibility for water accounts (discussed further in Appendix 4).

1.4 SA Water

SA Water would see reduced costs, due to lower demand resulting from reduced consumption and leakage. This would also result in a loss of revenue.

SA Water would improve its knowledge of its consumer base by billing end users. This would include greater insight into consumer behaviours. Currently, SA Water’s relationship is with the landowner. Information regarding the property is sourced from the valuation roll. A move to collect more customer/consumer-based information would improve SA Water’s relationships with its customers.

The main cost to SA Water would be changes to its billing system and associated business processes. This includes costs associated with changes to SA Water’s standard contract,

⁵ Residential Tenancies Tribunal, *Submission to the 2013 Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform*, 2013, p.3, available at: <http://www.escosa.sa.gov.au/projects/189/inquiry-into-drinking-water-and-sewerage-retail-services-pricing-reform.aspx> .

privacy policy, and fraud and debt policies. SA Water would also need to develop processes for managing customers moving between properties. Another significant cost to SA Water would be additional meter reading and billing for account finalisation for tenants. SA Water would also incur these costs when landowners sold and bought properties.

Additional costs to SA Water for account finalisations for owner-occupiers has not been included in the CBA. Currently, conveyancers undertake this process when settling property transfers, and, hence, it is a cost transfer, rather than an additional cost. Further, account finalisation costs to SA Water (previously incurred by conveyancers) would be avoided when a tenanted property was sold and the tenant did not change.

This reform recommendation could also increase the potential for bad debt and debt write-offs (assuming tenants are a riskier category of customers than land owners). This cost is discussed further in Appendix 4).



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