



Final Inquiry Report: Inquiry into Reform Options for SA Water's Drinking Water and Sewerage Prices - January 2015

BILLING END USERS

Final finding

There are net economic benefits to be derived from SA Water having a direct contractual relationship with end users rather than landowners.

Final recommendation

1. Where practicable, the end user of a retail service, rather than the owner of the premises to which that retail service is supplied, should be SA Water's customer for that retail service, regardless of whether or not that service is individually metered. However, alternative arrangements should be permitted where entered into by mutual agreement between a landlord and a tenant.

DEBT RISK AND DEBT SECURITY

Final finding

SA Water should be placed in the same position as other utilities and rely on the general law to recover and enforce its debts against customers.

The existing statutory rights to secure and recover debt against land granted to SA Water under the *South Australian Water Corporation Act 1994* should be removed.

Final recommendation

2. The current provisions in the *South Australian Water Corporation Act 1994*, which confer on SA Water the rights to secure debts through a statutory charge on land and sell land to satisfy a debt, should be repealed.

NON-CONNECTED PROPERTIES

Final finding

Customers who choose not to connect to SA Water's network should not be required to pay a fixed charge to SA Water.

Final recommendation

3. Customers should only be charged for a water and sewerage service if they enter into an agreement with SA Water to become a customer. Likewise, customers should be able to cease being a customer of SA Water subject to providing reasonable notice and paying appropriate disconnection and account finalisation fees.

INDIVIDUAL METERING

Final finding

The costs of installing water meters to all properties that are currently not metered would outweigh the associated benefits.

Final recommendation

4. The installation of individual water meters to group-metered properties, both retrofit and new properties, should be optional (i.e. maintain the status quo).

SMART METERING

Final finding

The cost of mandatory smart water meters outweigh the benefits to consumers.

Final recommendation

5. Smart water metering should be optional (i.e. maintain the status quo).

DRINKING WATER CHARGES

Final findings

Consistent with the findings of the 2009 Water for Good plan, economic efficiency can be enhanced through setting drinking water usage charges based on the marginal cost of supply. The construction of the Adelaide Desalination Plant has reduced the marginal cost of water significantly and economically-efficient water usage charges should reflect that lower cost.

It is economically efficient to set a single usage charge based on the long-run marginal cost of water supply. During periods of water scarcity, economic efficiency can be further enhanced by allowing usage prices to increase to reflect the short-run marginal cost of supply.

If usage charges are reduced to cost-reflective levels, drinking water supply charges would need to increase significantly, assuming SA Water is to recover the same amount of revenue. This would lead to an unwinding of current cross-subsidies, with most residential customers experiencing bill increases and large water users receiving lower bills. Transitional arrangements would be necessary to address the movement to more cost-reflective prices.

Capacity-based charging is the most cost-reflective way to set SA Water's drinking water supply charges. Other fixed drinking water charges (e.g. connection and disconnection charges) should be cost-reflective and recovered on a user-pays basis.

Final recommendation

6. Consideration should be given to making SA Water's drinking water charges more cost-reflective. Any subsidies are best delivered outside drinking water prices through separate payments.

REGIONAL DRINKING WATER CHARGES

Final findings

Differentiating water usage charges by region would further enhance economic efficiency, albeit by only a small amount relative to the application of a statewide long-run marginal cost -based usage charge.

There is unlikely to be any net benefit in setting water supply charges on a regional basis, based on existing fixed assets, although there may be benefits in allocating future fixed costs to regional customers to promote efficient investment decisions.

Final recommendations

7. Consideration should be given to regional long-run marginal cost -based usage charges and moving to regional fixed charges over time, noting that the additional economic benefits are small.

SEWERAGE CHARGES

Final findings

SA Water's sewerage costs are largely independent of sewage volumes and there is no economic basis for usage-based sewerage charges.

Capacity-based charging is the most cost-reflective way to set SA Water's sewerage charges. Other fixed sewerage charges (e.g. connection and disconnection charges) should be cost-reflective and recovered on a user-pays basis.

Final recommendation

8. Sewerage charges should reflect the "capacity requirement" a customer places on the sewerage system, not the value of the property. The most appropriate reflection of capacity is the size of the sewerage connection.

REGIONAL SEWERAGE CHARGES

Final finding

There is unlikely to be any net benefit in setting sewerage charges on a regional basis using the value of existing fixed assets, although there may be benefits in allocating future sewerage costs on a regional basis to promote efficient investment decisions.

Final recommendation

9. Consideration should be given to regional sewerage charges, based on allocating future sewerage costs to each region.

TRADE WASTE CHARGES

Final finding

Unlike other sewerage customers, there is a usage cost imposed (for discharge) by trade waste customers and long-run marginal cost based charging is the most economically efficient way to set trade waste charges.

Final recommendation

10. Trade waste charges should continue to be based on volume and load, and set with reference to long-run marginal cost. An independent review should be undertaken to develop robust estimates of the long-run marginal cost of trade waste for flow and non-flow parameters.

REGIONAL TRADE WASTE CHARGES

Final finding

The long-run marginal cost of trade waste is likely to differ for each individual sewerage catchment and there may be net benefits in setting regional trade waste charges to reflect those cost differences.

Final recommendation

11. Consideration should be given to implementing regional trade waste charges where the long-run marginal cost of each trade waste parameter within a sewerage catchment is known. Until long-run marginal cost estimates have been developed for individual sewerage catchments, trade waste prices should be set with regard to the long-run marginal cost at Bolivar, which accepts 97 per cent of trade waste volume.

FURTHER INFORMATION

Any queries relating to the Inquiry Report into the Reform of SA Water's Drinking Water and Sewerage Prices should be directed to:

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WATER PLANNING AND MANAGEMENT COSTS

Final finding

Current water planning and management charges paid by SA Water's customers may not be economically efficient.

Final recommendations

12. The Government should consider commissioning an independent public review of the prudence and efficiency of all water planning and management-related costs incurred by SA Water, including the manner in which they are recovered.
13. Until such a review is conducted, SA Water should make it clear on customers' bills that a water planning and management payment is being collected through them – and that this is being done for the benefit of the wider South Australian public. Consideration should also be given to the development of a mechanism whereby SA Water's water planning and management costs are balanced or trued-up prior to the commencement of the next price determination period (1 July 2016).



The Essential Services Commission of South Australia is an independent economic regulator of water, electricity, gas, ports and rail industries in South Australia. The Commission's primary objective is the protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services.

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