

14 February 2014

Economic Regulation of SA Water from 1 July 2016
Essential Services Commission of South Australia
GPO Box 2605
ADELAIDE SA 5001

Dear Sir/Madam,

I write to you in response to the recently released 'Draft Framework and Approach' for Economic Regulation of SA Water from 1 July 2016.

Executive Summary

The cost of water forms a significant part of the cost of production, particularly for manufacturing and primary production. Since 2006, some businesses have experienced an increase in water costs as high as 260%. Other businesses continue to pay the same, if not higher charges to SA Water despite some of these businesses having made multimillion dollar investments in their own wastewater treatment facilities.

Business SA supports adopting a cost-reflective pricing system if it can provide an incentive for businesses to change their water usage. However, this system cannot be considered in isolation. The water pricing structure must also take into consideration the availability of other options of water supply and incentives for business to shift its water usage from potable water to grey water, treated wastewater or stormwater.

South Australia should continue to focus on being less dependent on the River Murray and taking measures to improve conservation and re-use of potable water, and not just rely on expensive desalination alone.

In Business SA's pre-election survey of members, 62% of the respondents indicated that treated wastewater and stormwater could be used within their businesses provided there was better access to infrastructure and that these options were more affordable than using potable water. Furthermore, 92% of the respondents also agreed that water prices should be more cost reflective to ensure that businesses are rewarded for efficient water usage and for making investments in, for example, their own wastewater treatment facilities.

Background

Subsequent to our March 2013 submission on SA Water's Drinking Water and Sewerage Revenues through to 1 July 2016, Business SA makes the following comments to ESCOSA which should be reflected in its eventual determination on both Price and Service Standards for SA Water for the second regulatory period beginning 1 July 2016.

Second SA Water Price Determination

1. In regards to how SA water assesses customer impacts for any price determination analysis, it will be important that small business customers are appropriately categorised.

The ability of small business customers to adjust to price changes is often limited compared with commercial or larger business customers and this needs to be given appropriate consideration in any future price determinations.

2. Any financial impact analysis also needs to consider the ability of customers to shift to alternative sources of potable water, including their own treatment plants. Alternative sources of water need to be commercially viable and appropriate levels of infrastructure need to be in place to incentivise businesses to adopt those sources should potable water for specific uses become too expensive.
3. In relation to the length of the regulatory period, Business SA notes ESCOSA's comments that "the longer the regulatory period, the greater the incentive for SA Water to reduce costs below the allowances determined by the Commission, as it would retain the benefit of out-performance for a longer period of time".

If a longer regulatory period is adopted, while there should be some incentive for SA Water to reduce their costs, there also needs to be appropriate mechanisms in place to ensure that lower costs result in lower prices for customers, particularly small business. There may also be windfall cost reductions which should ultimately be returned as savings to water customers, bearing in mind that SA Water is a Government owned entity.

Business SA submits that a regulatory period of four years strikes a balance between limiting administrative inefficiencies and providing some long term certainty for SA Water to appropriately manage their business.

4. Business SA supports ESCOSA requiring SA Water to consult with its customers on proposed expenditures that rely on customer benefits so as to justify them, prior to submitting its Regulatory Business Proposal (RBP). However, as previously mentioned, it will be critical that organisations such as Business SA are given data which appropriately segregates impacts on customers including small businesses. We will not be in the position to give input on price impacts if we cannot ascertain precisely how our members will be affected.
5. Business SA supports ESCOSA's use of benchmarking SA Water against other water utilities as one input into its assessment. Although it is important that SA Water is competitive against interstate or overseas water utilities, SA Water should not rest at just being competitive. South Australian businesses already face the nation's most uncompetitive State based tax system and utility providers should strive to do whatever possible to reduce costs to business.

The health of South Australian businesses, the economy, and hence the Government and its own businesses such as SA Water are intrinsically linked and it is vital that SA Water continue to play their part in creating an attractive environment for business to prosper in South Australia.

6. Business SA acknowledges that SA Water's RBP must demonstrate that its proposed 'portfolio mix' of water sources (i.e. River Murray, Adelaide Desalination Plant, Reservoirs and others) represents the optimised cost to meet demand forecasts.

In doing so, SA Water should also provide detailed information of its actions to promote the long term growth of recycled water and storm water re-use. While Business SA understands that cost implications may be limiting progress here, it is nonetheless crucial that SA Water be active in research and development to ensure South Australia becomes less reliant on the River Murray and desalination plant over time and that businesses are incentivised to harvest water and re-use potable water.

7. Business SA does not support a working capital allowance being provided to SA Water. Like any business, SA Water must manage its revenues and expenses to ensure ongoing liquidity and there needs to be a commercial imperative to do so.
8. In relation to pass-throughs, Business SA accepts there may be some circumstances outside SA Water's control which require it to raise prices as if it were operating in a competitive market. Consequently, we support ESCOSA's proposal that there should be limited circumstances which trigger the consideration of a pass-through but by the same token there needs to be a driver to ensure windfall events for SA Water are returned to consumers.
9. ESCOSA is an independent economic regulator and should have full autonomy with respect to any adopted water demand forecasts.
10. Any installation of smart meters in the next regulatory period should be on a voluntary basis and should not result in an additional cost to a business customer with an ageing asset which is otherwise scheduled for replacement.
11. In relation to any potential move away from property value-based sewerage charging, it will be important that customers impacted, including small businesses, are appropriately informed of how these changes will impact them.

Second SA Water Service Standards

12. The current level of reliability standards seem appropriate and due care needs to be taken in making any cost benefit trade-offs which may unfairly impact on businesses. While Business SA does not want to see members paying any more for water than what is reasonable, it is also important that businesses have a reliable supply of water to ensure business critical operations are maintained.

Furthermore, if reliability standards change because of what households are willing to sustain, how can standards be maintained for businesses which often have a much higher threshold for reliability?

13. Although Business SA supports a Guaranteed Service Level (GSL) scheme in principle, it will be important to ensure that the administrative burden of such a scheme does not outweigh its benefit.

The GSL scheme in operation for the electricity sector has worked well but it will be important for ESCOSA to thoroughly consider the relative performance of SA Water versus electricity network providers to decide the merit of mandating such a scheme for water.

Who We Are

As South Australia's peak Chamber of Commerce and Industry, Business SA is South Australia's leading business membership organisation. We represent thousands of businesses through direct membership and affiliated industry associations. These businesses come from all industry sectors, ranging in size from micro-business to multi-national companies. Business SA advocates on behalf of business to propose legislative, regulatory and policy reforms and programs for sustainable economic growth in South Australia.

Should you require any further information or have any questions, please contact Rick Cairney, Director of Policy, Business SA on (08) 8300 0060 or [rickc@business-sa.com](mailto:rckc@business-sa.com).

Yours sincerely



Nigel McBride
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