

FACT SHEET

Review of SA Water's regulatory business proposal for the revenue determination period 2013/14-2015/16

15 October 2012

Background

The Water Industry Act gives the Essential Services Commission of SA (ESCOSA) broad regulatory powers and functions within the South Australian water industry related to economic regulation. ESCOSA does not have any role in environmental, health or social policy. Those matters are addressed by other regulators and agencies.

One of ESCOSA's key roles under the Water Industry Act is to make price determinations. The Treasurer, pursuant to section 35 of the Water Industry Act, has issued a Pricing Order which has the effect of prescribing particular factors, matters, and methodologies which bind ESCOSA in making its price determination.

In summary, the Treasurer's Pricing Order requires ESCOSA to:

- Make a revenue determination only (not a price determination) regarding the revenues which may be derived from the provision of drinking and sewerage retail services;
- adopt a revenue cap, average revenue cap or combination of the two as the form of price regulation for SA Water's drinking water and sewerage services;
- adopt an initial value of the regulated asset base, to be specified by the Treasurer at a later date;
- allow SA Water to recover certain non-commercial activities, externalities and water and planning management charges in accordance with a direction under Section 6 of the Public Corporation Act 1993; and
- comply with the National Water Initiative pricing principles (other than the principles for recovering the costs of water planning and management activities).

Review Process

ESCOSA will make its first revenue determination for SA Water in May 2013, setting maximum allowed revenues for drinking water and sewerage retail services for the three year period from 1 July 2013 to 30 June 2016.

As part of this process, SA Water has now provided ESCOSA with its Regulatory Business Proposal (RBP) for this period (available from www.escosa.sa.gov.au).

ESCOSA will review the RBP to ensure that it is consistent with the requirements of the Water Industry Act and other legislation and, most importantly, that it promotes the long-term interests of consumers in South Australia. Should the RBP meet all relevant requirements and best promote the long-term interest of consumers, ESCOSA will approve the plan. If any elements of the RBP do not meet the criteria, ESCOSA will substitute those elements with its own decisions.

The Issues Paper has been prepared to provide all members of the community with the opportunity to provide input on any issues related to SA Water's RBP, and how ESCOSA should take them into account in its revenue determination.

The issues paper covers the key issues to be determined by ESCOSA as follows:

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|------------------------------|-------------------------|
| ▲ Form of regulatory control | ▲ Supply Mix |
| ▲ Cost pass throughs | ▲ Return on assets |
| ▲ Capital expenditure | ▲ Regulatory asset base |
| ▲ Operating expenditure | ▲ Revenues |
| ▲ Demand | |

Providing feedback

ESCOSA welcomes comment from all interested parties on the issues paper and will consider all submissions in making its Draft Revenue Determination. Comments on the issues paper are required by COB 9 November 2012.

The full issues paper can be downloaded from its website (www.escosa.sa.gov.au) and written submissions can be made via email (escosa@escosa.sa.gov.au) or letter (GPO Box 2605 Adelaide SA 5001).

ESCOSA will make a Draft Revenue Determination for public consultation in early February 2013 and a Final Determination in late May 2013.



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