



Draft Determinations for

1. SA Water

2. Other Retailers

MEDIA BRIEFING

7 February, 2013

The Essential Services Commission of South Australia is the independent economic regulator of the electricity, gas, ports, rail and water 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.





Today's Agenda

1. Overview of the Commission
2. Draft Revenue Determination - SA Water
3. Draft Price Determination & Consumer Protection Framework – Other Retailers
4. Questions

1. Overview of the Commission

- ❑ Independent economic regulator of 5 industries: water, electricity, gas, ports and rail.
- ❑ Legislated primary objective¹:

“protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services”

- ❑ Key functions:
 - Licencing
 - Consumer protection
 - Access regulation
 - Price/revenue regulation
 - Performance monitoring
 - Administration of Residential Energy Efficiency Scheme
- ❑ Strong focus on public consultation and transparency
- ❑ Recently became the economic regulator of the water industry, following the passage of the Water Industry Act

¹ Essential Services Commission Act 2002, Section 6 (a)

2. Draft Revenue Determination: Background

- ❑ Commission is setting revenue caps for SA Water's drinking water and sewerage retail services for the 3-year period 2013/14 – 2015/16
- ❑ Draft Revenue Determination will be released at 11am today for public consultation
- ❑ Commission's approach to the Draft Revenue Determination has been driven by:
 - Treasurer's Initial Pricing Order; and
 - Commission's understanding as to how the Treasurer will set the initial Regulatory Asset Base (RAB) value
- ❑ Final Revenue Determination will be made in May and apply from 1 July

Treasurer's Initial Pricing Order

- ❑ Made in September 2012
- ❑ Requires Commission to:
 - Set revenue caps only, not prices
 - Pass through to consumers the costs (less Government contributions) of non-commercial activities that the Government requires SA Water to perform
 - Establish a mechanism to adjust revenues for demand variations
 - Adopt the initial RAB value to be set by the Treasurer in a subsequent Pricing Order

Commission's Understanding of How Treasurer will set Initial RAB Value

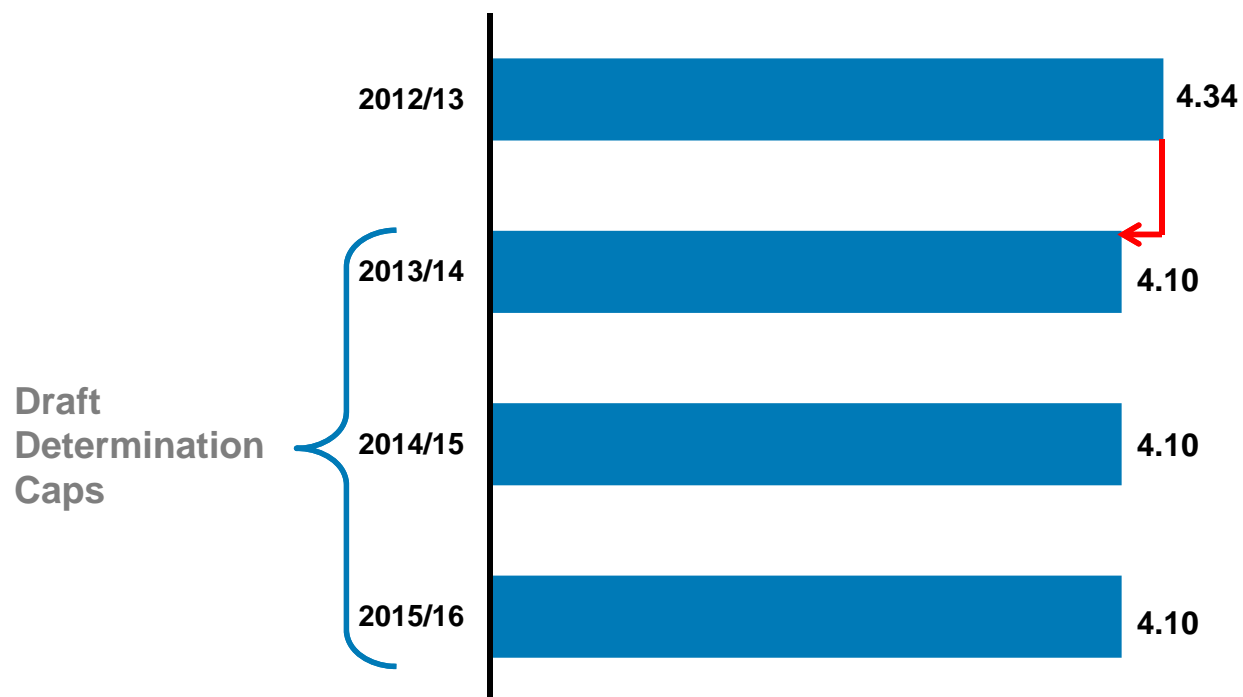
- ❑ To achieve price paths for water and sewerage equal to:
 - The price paths that the Government forecast in its 2012/13 Regulatory Statement¹
plus/minus:
 - Adjustments to pass through to consumers the full impact of savings in capital and operating expenditures that the Commission makes relative to those forecast in the 2012/13 Regulatory Statement

- ❑ To be set in mid-May, after the Commission provides the Treasurer with a draft Final Revenue Determination and recommendation on the initial RAB value

¹ The Regulatory Statement explained the Government's decision on 2012/13 drinking water & sewerage prices

Real Average Revenue Caps – Water

Average water revenue
\$ per kL, \$Dec12

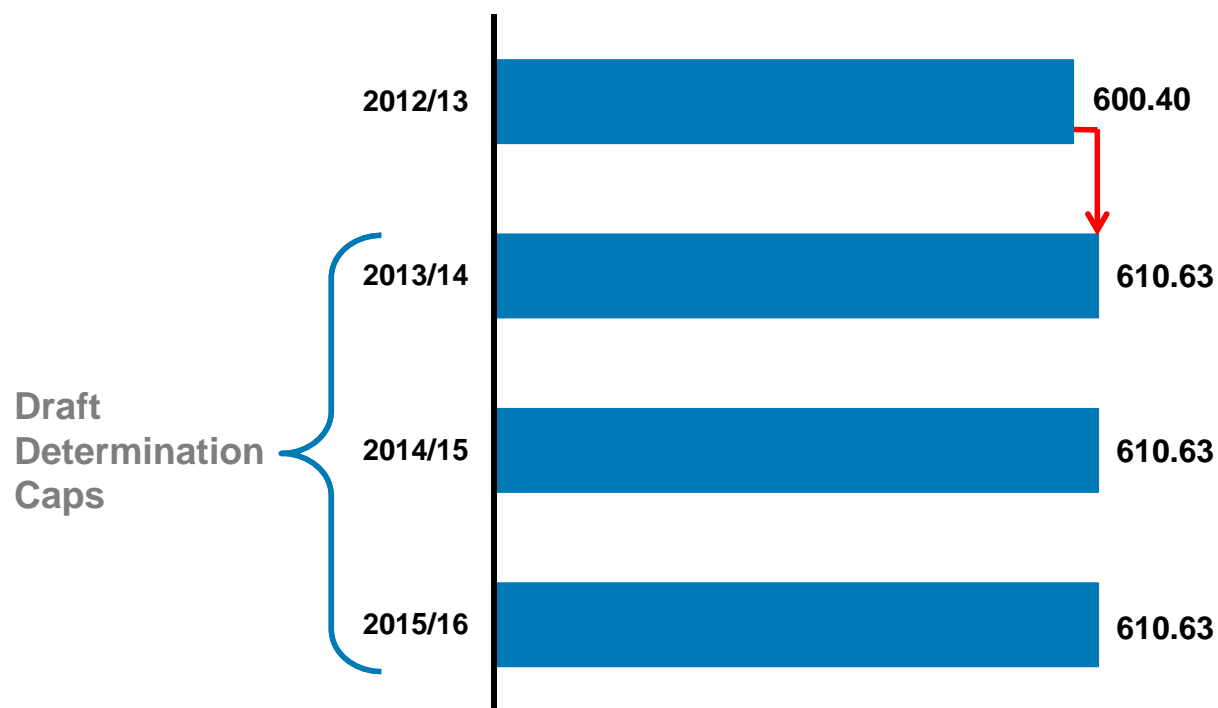


Key Points

- *5.4% average real price reduction from 1 July*
- *Lower average real prices then maintained for three years*

Real Average Revenue Caps – Sewerage

Average sewerage revenue
\$ per connection, \$Dec12



Key Points

- *1.7% average real price increase from 1 July*
- *Lower average prices then maintained for three years*

Why do real average revenues change?

Water

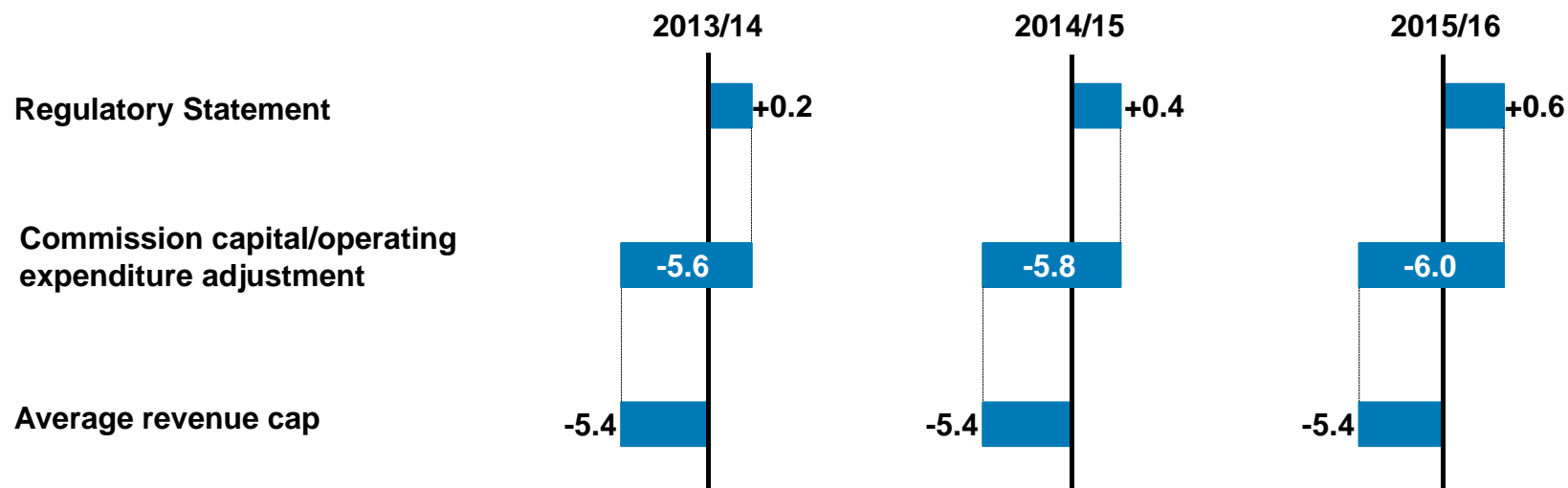
- Regulatory Statement forecast small increases
- Commission has cut operating expenditures by \$145m (14.1%)
- Operating expenditure cuts swamp a small increase in capital expenditures

Sewerage

- Regulatory Statement forecast moderate increases
- Commission has allowed small increase in operating expenditures
- Commission has made a small cut to capital expenditures
- Capital and operating expenditure impacts offset each other

Real Average Revenue Changes –Water

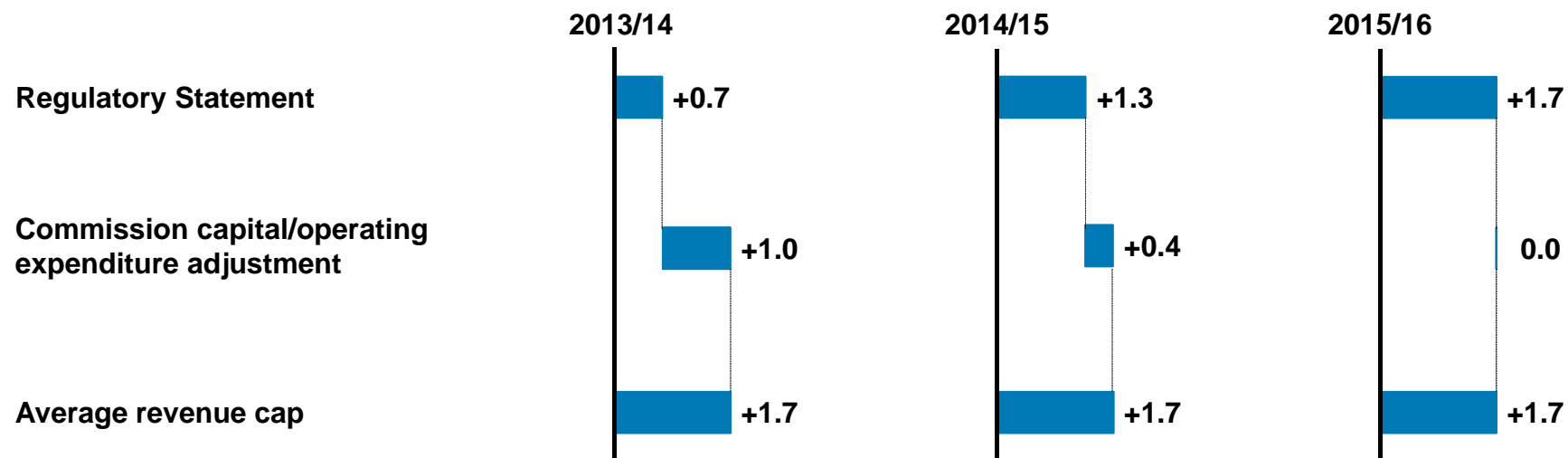
Cumulative % change versus 2012/13



The Commission has adjusted average revenues upfront, subject to ensuring that average revenues in 2015/16 are cost-reflective

Real Average Revenue Changes – Sewerage

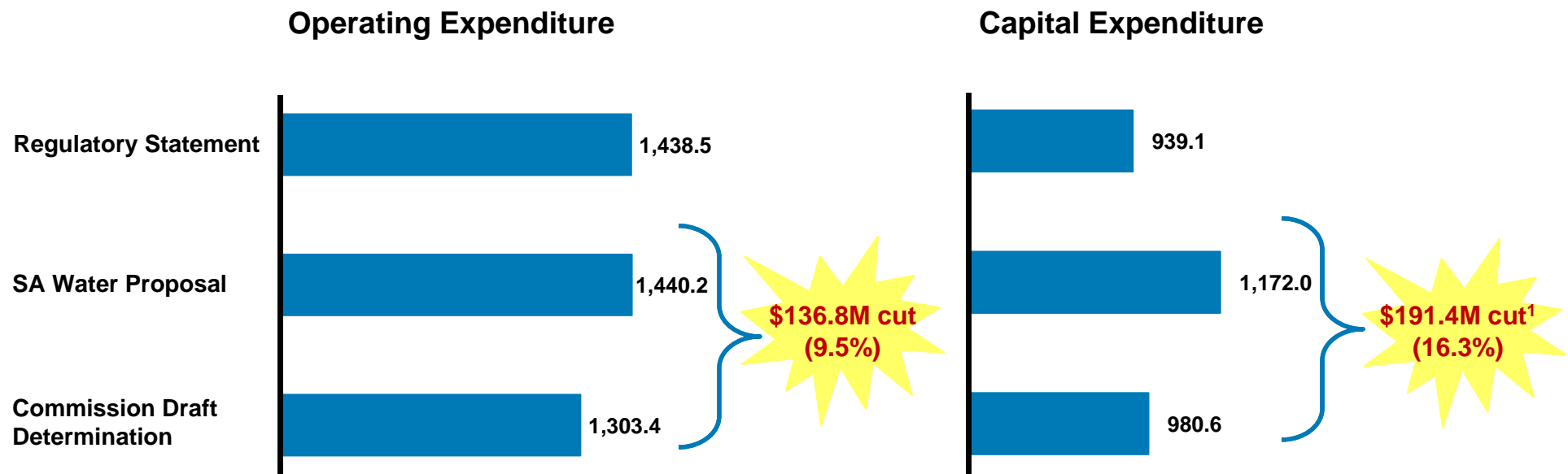
Cumulative % change versus 2012/13



The Commission has adjusted average revenues upfront, subject to ensuring that average revenues in 2015/16 are cost-reflective

Substantial Savings versus SA Water's Proposal

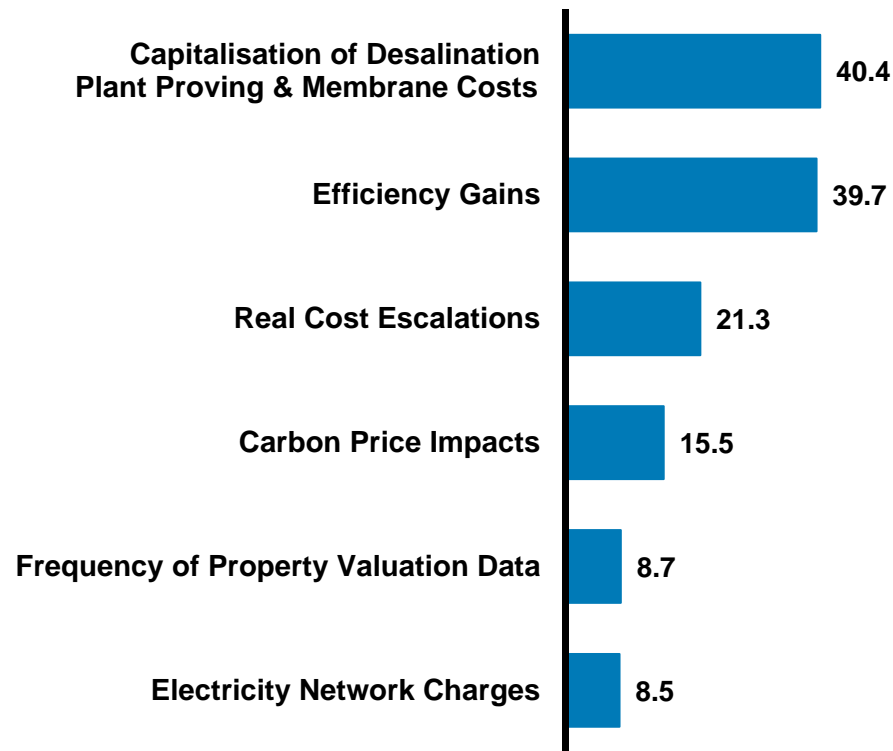
3-Year Totals, \$M December 2012



¹ Despite capitalisation of \$40.4M of desalination plant proving and costs

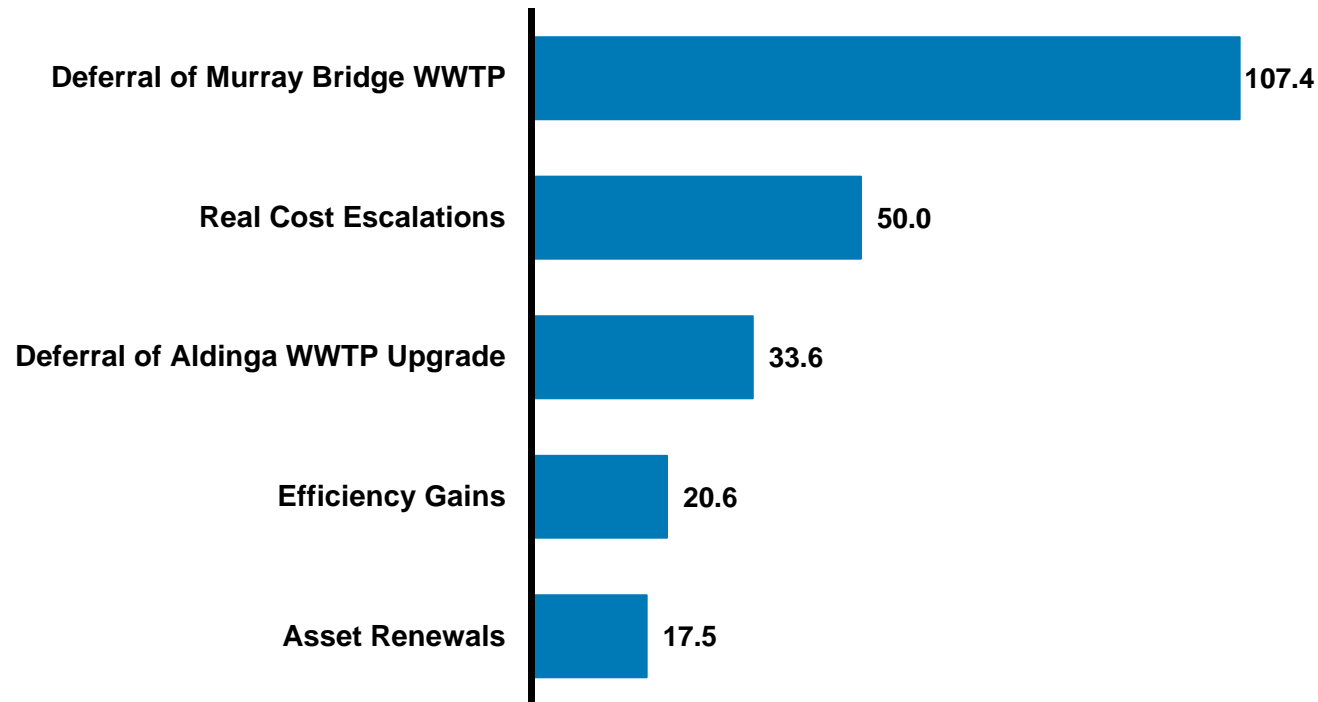
Biggest Operating Expenditure Cuts

Cuts to SA Water's Proposal \$M December 2012

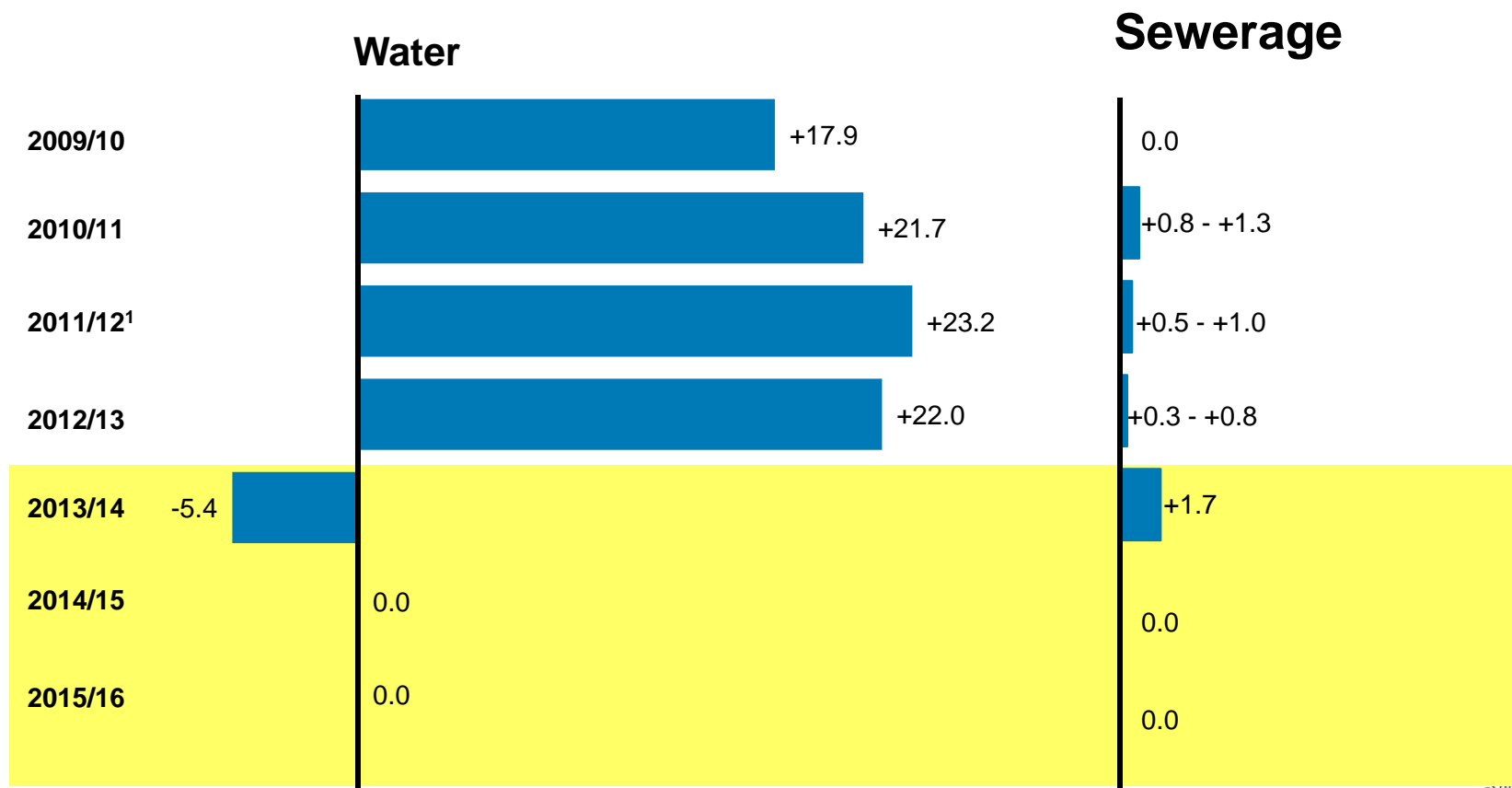


Biggest Capital Expenditure Cuts

Cuts to SA Water's Proposal \$M December 2012



Average Real Price Changes: Past & Future



¹ Real increases for these years are the nominal increases adjusted using a 2.5% inflation rate

What Might Change in the Final Revenue Determination?

❑ Revenue caps:

- Commission will take account of information/views provided in public submissions
- Long-term forecasts of weather conditions and water flows may change
- Dependent of initial RAB value to be set by Treasurer

❑ Initial RAB value:

- Commission will use initial RAB value to be set by Treasurer
- Commission will recommend an initial RAB value to the Treasurer. In the interests of transparency, the Commission will publish that recommendation in its Final Revenue Determination

Likely Reduction in the Regulated Asset Base(RAB)

- ❑ Regulatory Statement forecast a total RAB as of 1 July 2013 of \$10.8 billion
 - Water - \$7.5 billion
 - Sewerage - \$3.3 billion

- ❑ Commission expects that a lower RAB value will be required to enable implementation of the Draft Revenue Determination's revenue caps. Key drivers of potential RAB changes include:
 - Metropolitan water legacy assets
 - Economic regulators' methodologies different to Government's past approach (e.g., post-tax)
 - Cost of capital
 - Various other factors (demand forecasts, lower community service obligation payments, etc.)

- ❑ However, while some key drivers will require a RAB value reduction, some may require a RAB value increase and/or may change prior to the Final Revenue Determination

- ❑ As the Commission has previously noted that water and sewerage prices are high in SA relative to those in other jurisdictions, the Commission may recommend further RAB value reductions if cross-jurisdictional price comparisons indicate that SA prices remain relatively high

Commissions Next Steps

- | | |
|---------------------------------------------------------------------------------------------------------------------|---------------------|
| <input type="checkbox"/> Public consultation | Now - 19 March 2013 |
| <input type="checkbox"/> Submit draft Final Revenue Determination and initial RAB value recommendation to Treasurer | Mid-May |
| <input type="checkbox"/> Receive further Pricing Order | Mid/late May |
| <input type="checkbox"/> Make Final Revenue Determination | Mid/late May |

3. Draft Price Determination & Consumer Protection Framework – Other Retailers

- Licensing
 - 52 applications (mainly councils)
- Price Regulation
 - Pricing principles approach
- Consumer protection, including:
 - Standard contracts
 - Information provision
 - Service standards
 - Billing and payments
 - Dispute resolution
 - Hardship
- Commission will release a Draft Price Determination and Consumer Protection Framework for public consultation at 11am today



4. Questions?