

Draft Determination of SA Water's Water and Sewerage Revenues: 2013/14 - 2015/16

7 February 2013

INTRODUCTION

The Essential Services Commission of South Australia (ESCOSA) is undertaking the first independent determination of the amount of revenue that can be recovered by SA Water from its drinking water and sewerage customers.

ESCOSA has released for public consultation a Draft Revenue Determination for SA Water for the three years commencing 1 July 2013. As part of this Determination, ESCOSA will set maximum revenues ('revenue caps') for SA Water's water and sewerage services.

SA Water will be responsible for setting specific prices (such as supply and usage charges) for residential and non-residential customers; however, those prices must comply with the average revenue caps in ESCOSA's Final Revenue Determination.

PROPOSED CHANGES TO SA WATER'S REVENUES

The Draft Revenue Determination would reduce SA Water's real average drinking water revenue by 5.4% on 1 July 2013 and increase real average sewerage revenue by 1.7% on 1 July 2013, as set out below. Following the 1 July adjustment, ESCOSA does not expect to change average real water and sewerage prices during the next three years.

Real Average Water and Sewerage Revenue Caps 2013/14 - 2015/16

YEAR	2012/13	2013/14	2014/15	2015/16
Water revenue (\$ per kL) (annual charge)	4.34	4.10 (-5.4%)	4.10 (-0.0%)	4.10 (-0.0%)
Sewerage revenue (\$ per connection) (annual charge)	600.40	610.63 (+1.7%)	610.63 (+0.0%)	610.63 (+0.0%)

The net effect is a 3.3% reduction in the overall real average price for water and sewerage combined. At the start of each year ESCOSA will convert these real revenue caps into nominal revenues by adjusting for inflation.

DETERMINING THE CHANGES

The Draft Revenue Determination allows only capital and operating expenditures that ESCOSA has assessed to be prudent and efficient.

As the water industry is capital-intensive, the final revenue caps that ESCOSA set in May 2013 will be heavily dependent on the value of the Regulated Asset Base (RAB) that the Treasurer will set in the same month. As the Treasurer has not yet set the value of the RAB, ESCOSA has established revenue caps in this Draft Revenue Determination based on its understanding that the Treasurer will set the value of the RAB to achieve price paths for water and sewerage equal to:

- The price paths that the Government forecast in its 2012/13 Drinking Water and Sewerage Prices Regulatory Statement (Regulatory Statement)
plus/minus:
- Adjustments to pass through to consumers the full impact of changes in capital and operating expenditures that ESCOSA makes relative to those forecast in the 2012/13 Regulatory Statement.

Drinking Water

The reduction in real average water revenue is driven largely by our draft decision to allow \$145.2 million (14.1%) less operating expenditures, than those forecast in the Regulatory Statement.

Sewerage

ESCOSA's Draft Determination raises real average sewerage revenue by connection by 1.7% over the three year period, approximately the same amount as the Regulatory Statement forecast. This is because ESCOSA's capital and operating expenditure allowances are similar to the Regulatory Statement's forecasts.

NEXT STEPS

The Treasurer will issue a Pricing Order in May specifying the initial RAB value that ESCOSA must adopt in its Final Revenue Determination. ESCOSA expects that a significant overall reduction in the RAB value will be required to implement its revenue caps.

ESCOSA will also take into account responses to the public consultation process in setting the Final Revenue Determination for release later in May.

SA Water will be responsible for setting its prices during the 3-year regulatory period; it could set prices in a number of ways while still being compliant with the Final Revenue Determination. It is therefore not possible, at this stage, to determine the changes in bills for particular types of customers. Those impacts will be known once SA Water sets its prices, which is expected to be in June 2013.

REQUEST FOR SUBMISSIONS

ESCOSA welcomes comment from all interested parties on the Draft Determination and will consider all submissions in making its Final Revenue Determination. Comments are required by COB 19 March 2013.

The full Draft Revenue Determination can be downloaded from its website (<http://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).

If you would like to keep up to date with our water industry activities and the release of papers for consultation, subscribe at <http://www.escosa.sa.gov.au/subscribe.aspx>.



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