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11 March 2013

SA Water's Drinking Water and Sewerage Revenues 2013-14 to 2015-16
Essential Services Commission of South Australia
GPO Box 2605
Adelaide SA 5001

Dear Sir/Madam,

BusinessSA
Your business is ours

I write to you in relation to the Essential Services Commission of South Australia's *Draft Determination of SA Water's Water and Sewerage Revenues: 2013-14 to 2015-16*.

Business SA is South Australia's leading business membership organisation, representing thousands of businesses through direct membership and affiliated industry associations. We represent businesses across 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.

Water prices have increased by around 20 per cent per year over the last four years, raising business costs and contributing to hardship for some consumers. These rises largely resulted from the construction of the Adelaide Desalination Plant (ADP) and associated pipeline infrastructure.

To provide water consumers with some relief, Business SA generally supports the 5.4 per cent reduction in revenue proposed for SA Water in 2013-14 in the Draft Determination, followed by stable real revenues in the following two years.

Business SA agrees with the Essential Services Commission of South Australia (ESCOSA) on its lower allowances for operating expenditure and the costs of SA Water associated with the carbon price, electricity prices and escalation costs for inputs such as labour and materials.

Regarding capital expenditure, Business SA agrees with ESCOSA on its lower allowances for escalation costs, but is not in a position to provide comment on the necessity of the upgrades to the Murray Bridge and Aldinga Waste Water Treatment Plants and other major projects.

Business SA also agrees with the reclassification of costs associated with the capitalisation of the ADP plant proving and membrane costs from operating expenditure to capital expenditure.

One area of concern is whether the reduction in revenue in 2013-14 associated with efficiency gains and asset renewals could result in lower maintenance spending and a potential increase in the number of water mains bursting. While Business SA agrees that SA Water should achieve some efficiency gains and is unlikely to need to do the extent of maintenance and renewal work outlined in the proposal by SA Water, reductions in maintenance spending carry with them the risk of damage and inconvenience caused by the bursting of water mains.

It is particularly important that an efficient risk-based approach to maintenance and pipeline renewals is implemented, so that this type of capital expenditure is not excessive and that it is allocated appropriately to minimise the risk of the bursting of water mains.

Business SA supports ESCOSA's water demand forecasts, regulatory rate of return calculations and pass through regime.

With regards to process, it would be preferable for the Treasurer to set the Regulated Asset Base (RAB) prior to ESCOSA's draft determination or for ESCOSA to determine the RAB as part of its regulatory function. This would provide greater certainty for ESCOSA and a better indication of the magnitude of water price changes for stakeholders. It would also provide stakeholders with an opportunity to comment on water price changes (rather than revenue) and the size of the RAB. However, Business SA understands that this situation is not under the control of ESCOSA.

Business SA looks forward to the opportunity to provide a submission to ESCOSA's upcoming Inquiry into Drinking Water and Sewerage Retail Services Pricing Reform in the second half of 2013 and 2014, where the above issues may be raised.

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.

Yours sincerely

Nigel McBride

Chief Executive Officer