

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

27 May 2013

On 1 January 2013, the Essential Services Commission of South Australia (ESCOSA) commenced its role as economic regulator of the water industry in South Australia. ESCOSA has issued a final determination of the amount of revenue that can be recovered by SA Water from its drinking water and sewerage customers for the 3-year period commencing 1 July 2013. The release of the final determination marks the completion of the first independent review of SA Water's revenues.

ESCOSA has made the Final Revenue Determination having regard to its primary objective: **protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services.**

ESCOSA has determined that, in nominal terms (allowing for inflation), SA Water's average revenue from drinking water services will fall by 5.5% on 1 July 2013. Nominal average revenue from sewerage services will increase by 1.6% on 1 July 2013.

AVERAGE WATER AND SEWERAGE REVENUE CAPS 2013-14 – 2015/16 (NOMINAL)

YEAR	2012/13	2013/14	2014/15	2015/16
Water revenue \$ per kL (annual charge)	4.34	4.098 (-5.5%)	CPI	CPI
Sewerage revenue \$ per connection (annual charge)	600.40	610.113 (+1.6%)	CPI	CPI

Removing the impacts of inflation, ESCOSA has determined a real reduction in drinking water average revenues of 7.8% on 1 July 2013. Average revenues from sewerage services will decrease in real terms by 0.9% on 1 July 2013.

In 2014/15 and 2015/16, the average revenue from both services will be allowed to increase with the annual change in CPI only.

The average revenue reductions are based on ESCOSA's findings that significant savings in expenditure can be achieved by SA Water and should be passed through to consumers. While ESCOSA has determined forecast revenues based on its assessment of the costs of specific projects and activities, the determination does not limit SA Water to conducting only those projects and activities; ESCOSA expects SA Water to manage its business independently, in accordance with all regulatory requirements and good industry practice, which will change over time.

The Revenue Determination sets two revenue caps: average water revenue per kL and average sewerage revenue per connection. While ESCOSA does not set individual prices for services that fall within these caps (for example, water supply and usage charges), movements in average revenues are broadly indicative of movements in the prices of services that fall within each cap. SA Water will be responsible for setting its own prices during the 3-year regulatory period, and those prices must comply with ESCOSA's Revenue Determination.

DRIVERS OF THE REDUCTION IN AVERAGE REVENUES

When the Government set SA Water's prices in 2012/13, it forecast increases in SA Water's drinking water and sewerage prices at around CPI. ESCOSA's Final Revenue Determination delivers lower average prices to consumers, driven primarily by:

- A reduction in forecast operating expenditure: ESCOSA has allowed significantly lower operating expenditure than was forecast in the 2012/13 pricing decision. It has removed \$141m of operating expenditure relative to that forecast in the 2012/13 pricing decision, and is \$145m lower than that proposed by SA Water during the 3-year period.
- A significant reduction in financing costs: the weighted average cost of capital (WACC) has decreased significantly in recent times and, based on the latest information, ESCOSA has approved a WACC of 4.50% (post-tax, real). This impact has, however, largely been offset by the Treasurer's decision to increase the value of SA Water's existing regulated drinking water assets by 5%, and regulated sewerage assets by 10%, relative to the values that were projected as part of its 2012/13 pricing decision.

ESCOSA has complied with all legislative requirements in making this Revenue Determination, including Pricing Orders issued by the Treasurer. In addition to specifying the initial value of SA Water's regulated assets, the Treasurer's pricing order also require the Commission to adopt water demand forecasts of 190GL per annum and to include the costs of certain non-commercial activities specified through direction to SA Water.

WHAT DOES THE FINAL DETERMINATION MEAN FOR WATER AND SEWERAGE PRICES/ BILLS?

Consumers will, in general, see an overall price reduction on 1 July 2013. However, prices for individual customers are set by SA Water and impacts on individual customers are subject to those prices. SA Water can set prices in a number of ways while still being compliant with ESCOSA's Revenue Determination. The Commission expects SA Water to announce those prices shortly.

THE FUTURE OF SA WATER'S PRICES

ESCOSA has been asked by the Treasurer to conduct an inquiry into areas where reform of SA Water's prices would lead to greater economic efficiency. ESCOSA's inquiry will be undertaken over the next 18 months and will involve public consultation on reform options during that period. ESCOSA's final report to the Treasurer on the inquiry is due by December 2014. The way in which SA Water's prices are set may change as a result of that inquiry and the Government's considerations.

FURTHER INFORMATION

The Final Revenue Determination, and related documents, can be downloaded from the ESCOSA website at www.escosa.sa.gov.au.

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