



Fact Sheet



Minor and Intermediate Retailers Regulatory Performance Report 2019-20

Key messages

- ▶ Collectively, 67 Minor and Intermediate Retailers provide drinking water services to approximately 5,600 customers and sewerage services (including Community Wastewater Management Systems) to approximately 99,200 customers.
- ▶ The scale and scope of water and sewerage services offered varies considerably across retailers, contributing to a wide range of both customer prices and service performance outcomes.
- ▶ Seventy two percent of retailers complied with all of the relevant pricing principles. In 2019-20, the proportion of retailers reporting full-cost recovery fell to 59 percent compared to 64 percent in the previous year. A key reason for this is that some Councils sought to provide temporary relief for customers from the social and economic impacts of COVID-19, by either keeping prices unchanged or increasing prices at a slower rate.
- ▶ Retailers reported a similar number of customer complaints - 406 compared to 405 in the previous year. The majority of complaints were related to sewerage services.
- ▶ At 30 June 2020, 16 retailers reported having a total of 273 residential customers of drinking water and sewerage services participating in their hardship programs, compared to 18 retailers and 192 residential customers last year.
- ▶ At 30 June 2020, 37 retailers reported having 5,497 residential customers on flexible payment arrangement plans, compared to 38 retailers and 5,979 residential customers last year.
- ▶ Retailers reported fewer legal actions and water restrictions to recover bad debts – 533 compared to 939 in the previous year.
- ▶ For drinking water services, retailers reported fewer unplanned interruptions and mains breaks: 23 compared to 32 in the previous year. For sewerage services, retailers reported more unplanned interruptions and mains breaks: 2,153 compared to 579 in the previous year. The increase in unplanned sewerage interruptions was due to the power outages in the Adelaide Hills region at the time of the Cudlee Creek bushfire.

The Essential Services Commission (**Commission**) is the economic regulator of the South Australian water industry. One of the Commission's key regulatory functions is to monitor and publicly report on the performance of water businesses.

This report covers the performance of water and sewerage service retailers with 50,000 or fewer connections (**Minor and Intermediate Retailers**). A separate report on the South Australian Water Corporation, which is the largest provider of water and sewerage services in South Australia, can be found on the Commission's website at: <http://bit.ly/water-regulatoryperformancereports>.

Collectively, 67 retailers licensed under the *Water Industry Act 2012 (WI Act)* provide drinking water services to approximately 5,600 customers and sewerage services, and Community Wastewater Management Systems (**CWMS**), to approximately 99,200 customers.

Minor and Intermediate Retailers are required to comply with a Regulatory Determination that sets pricing principles that must be followed by retailers,¹ a Water Retail Code that establishes consumer protection measures, and reporting requirements covering the following matters:

- ▶ pricing of water and sewerage services
- ▶ customer service and financial assistance, and
- ▶ reliability of service.

Further information on the above matters can be found at:

<https://www.escosa.sa.gov.au/industry/water/codes-and-guidelines/codes>.

How were Minor and Intermediate Retailers pricing their drinking water and sewerage retail services?

Minor and Intermediate Retailers are responsible for determining their water and sewerage service prices.² However, under the Regulatory Determination they must take the National Water Initiative (**NWI**) pricing principles into account when setting their water and sewerage service (including CWMS) prices.

Under the NWI, a set of pricing principles was developed to guide the price-setting process. These principles seek to promote cost recovery and pricing transparency.

Most retailers reported being fully compliant with the National Water Initiative pricing principles

Figure 1 shows 72 percent of retailers reported fully complying with all of the relevant pricing principles in 2019-20. Of the remaining 28 percent of retailers who reported partial compliance (by meeting only some but not all of the relevant pricing principles), the key reason given was the difficulty in achieving full cost recovery due to a small customer base and/or customers' capacity to pay.

¹ The Essential Services Commission, *Economic Regulation of Minor and Intermediate Retailers of Water and Sewerage Services – Final Decision*, June 2013, available at: <http://www.escosa.sa.gov.au/projects-and-publications/projects/water/economic-regulation-of-minor-and-intermediate-water-retailers>. The Commission made a subsequent determination to extend the term of the Price Determination until such time as a new price determination is made or it is revoked, available at: <https://www.escosa.sa.gov.au/projects-and-publications/projects/water/variation-to-2013-2017-price-determination-for-mir-to-extend-its-operation/variation-2013-17-price-determination-for-mir-to-extend-its-operation>.

² Prices for drinking water and sewerage services provided by the Municipal Council of Roxby Downs are set pursuant to Clause 13 of the Schedule to the *Roxby Downs (Indenture Ratification) Act 1982*.

Figure 1: Reported level of compliance with the NWI pricing principles

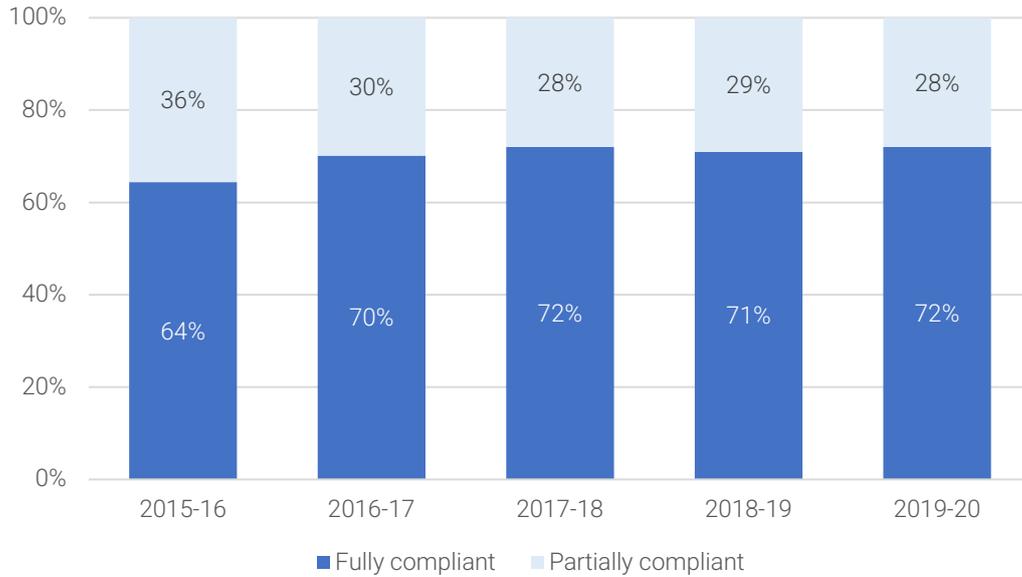
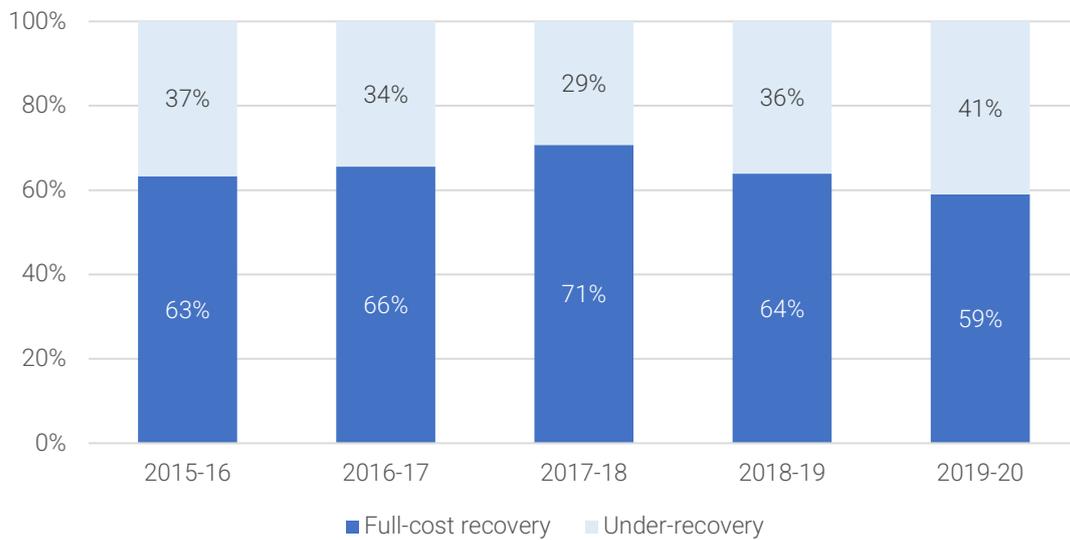


Figure 2 shows that 59 percent of retailers reported operating income which covered operating costs and depreciation in 2019-20. This measure is a reasonable proxy for whether or not retailers are recovering the costs of service provision. The Commission observes that, since 2017-18, there has been an increasing trend in the proportion of retailers reporting under-recovering costs. Ongoing under-recovery of costs may have a detrimental impact on the sustainability of the services that those retailers provide. This is a focus area for the Commission, and it will engage with retailers where it is identified that the sustainability of services may be at risk.

Figure 2: Reported level of cost recovery



In 2019-20, the proportion of retailers reporting full-cost recovery fell to 59 percent compared to 64 percent in the previous year. A key reason for this is that some Councils sought to provide temporary relief for customers from the social and economic impacts of COVID-19 by either keeping prices unchanged or increasing prices at a slower rate.

For the 41 percent of retailers that reported operating deficits, the key reasons claimed were:

- ▶ retailers still transitioning to full cost recovery³

³ There may be differences between retailers in their interpretation of 'full cost recovery'. For example, some retailers may interpret it as including all economic costs, including return on assets, while other retailers restrict their interpretation to operating costs.

- ▶ limitations in retailers' ability to recover the cost of service provision (for example, due to a small customer base and/or public benefit reasons such as supply to community areas) , and
- ▶ minimising price shocks to customers (for example, due to increased operating and/or capital expenditures).

The Commission notes that full recovery of the efficient costs of service provision requires retailers to consider a number of factors, including:

- ▶ the efficiency of the starting cost base (for example: is there detailed analysis and understanding of cost drivers or is it simply the case that previous assumptions have been rolled forward? Has there been customer engagement to understand the services and services levels that they value and are willing to pay for?)
- ▶ the robustness and integration of long-term asset management, financing and delivery plans: do those plans collectively allow retailers to meet customer's service delivery needs now and into the future?
- ▶ noting that, in some cases, water and wastewater assets are capital intensive, to what extent is a retailer able to achieve full cost recovery over the life of its assets?

In considering cost recovery, the means of doing so should also be considered and transparently explained:

- ▶ are the efficient costs being recovered from the customer base?
- ▶ if not, is there a plan to do so (on a user pays basis) over time?
- ▶ if there is no plan to do so, or if it is the retailer's view that it is not feasible to do so, how will the funding gap be met on a sustainable basis (for example, the amount of any subsidy and/or grant funding applied should be transparently disclosed).

Transparency on these matters is important, as it will inform and educate customers on the efficient costs of service provision and on the likely long-term costs and cost profile (and hence prices) associated with that service.

Drinking water and sewerage prices vary

In 2019-20, the annual residential drinking water bills based on an annual consumption of 200 kilolitres (kL) ranged from \$682 (Clare and Gilbert Valleys Council) to \$1,319 (District Council of Ceduna).⁴

Drinking water retail prices reflect the costs of managing each system (for example, number of connections, length of system per connection, age of the network, topography of the area serviced and quality of the source water). Further, the methodology used to set prices (that is, whether prices are set on a cost recovery or other basis) also differs between retailers. Accordingly, the prices paid by the customers of different retailers will differ.

Similarly, the average annual charge (for occupied land only) for sewerage/CWMS differs between retailers, ranging from \$250 (District Council of Kimba) to \$972 (Municipal Council of Roxby Downs) in 2019-20.

Again, when considering sewerage retail prices, it is important to consider the nature of the service provided (for example, a fully sewered system versus CWMS) and the costs of managing each system (for example, number of connections, age of the network, length of system per connection and the topography of the area serviced).

Non-drinking water is largely used by non-residential customers

Non-drinking water covers recycled water, stormwater and other water that does not meet drinking water standards. Such services include the delivery of recycled water to residential customers via 'purple pipe' networks and the use of recycled water to irrigate public spaces such as parks and sporting grounds (where water is charged).

⁴ Data excludes the Rural City of Murray Bridge as metered water supplied to sections of Woodlane are only charged for usage above 130kL per annum.

Approximately 92 percent of recycled water customers are residential. Non-residential customers, however, use the majority of recycled water by volume.

Retailers’ customer service performance and the assistance given to customers experiencing financial hardship

As water and sewerage services are essential services, retailers are required to meet their customers’ needs by providing a high level of customer service and assisting those experiencing financial difficulty.

The Water Retail Code is the principal consumer protection document that sets out the behavioural standards and requirements with which retailers must comply when engaging with their customers.

All retailers must have in place enquiries, complaints and dispute resolution procedures approved by the Commission. These procedures must clearly set out how customers can lodge an enquiry or complaint about the services they receive.

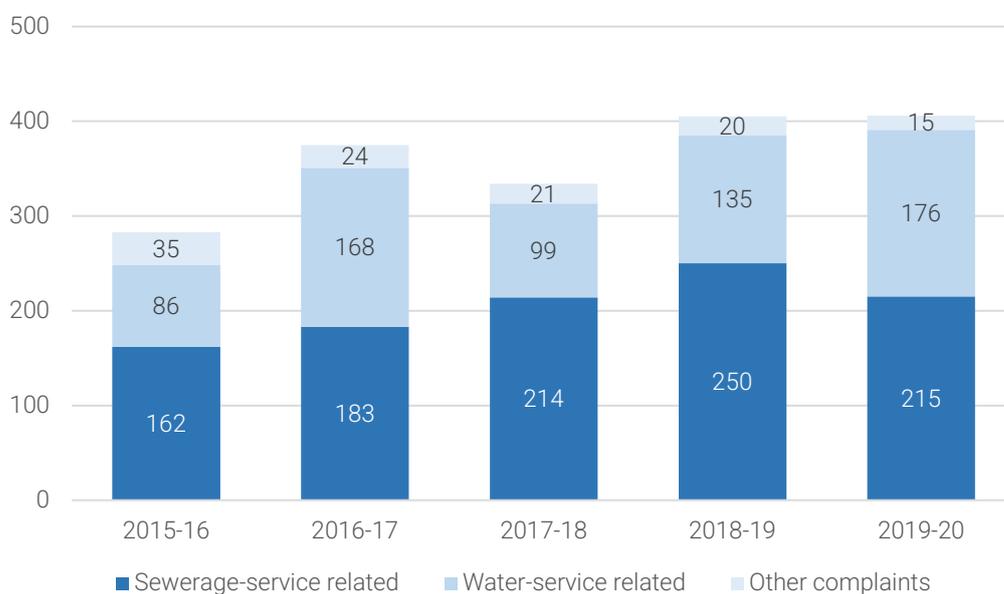
Further, retailers must offer programs to help customers experiencing financial hardship, such as flexible payment arrangements, customer hardship policies, and rules governing supply restrictions and debt recovery. Retailers must also actively engage with their customers to assist them in meeting their payment obligations.

These obligations allow customers who are willing to pay, but are unable to do so due to financial difficulty, to maintain their supply and avoid service restriction or debt recovery action. However, where a customer is not willing to participate or ceases making payment for reasons other than financial difficulty, service restriction or debt recovery may apply.

Minor and Intermediate Retailers reported a similar number of customer complaints

Thirty of the 67 retailers reported receiving a total of 406 customer complaints in 2019-20, compared to 405 complaints reported by 30 retailers in the previous year. The majority of complaints received by retailers in 2019-20 were related to sewerage services.

Figure 3: Number of complaints by service



Seventy seven out of the 176 water-service related complaints were associated with recycled water services provided by the City of Salisbury. Those complaints were driven by multiple events and spread across different categories – for example, 28 complaints were related to the colour of the recycled water provided (with eight of those complaints associated with one single event) and 24 complaints related to interruptions to customer supply. To reduce the number of future complaints, the Council has advised that it would seek to improve the dissemination of information to customers (for example, making them more aware of the information available on the Council’s website and/or engaging with customers via social media).

Of the 30 retailers that received complaints, Alexandrina Council was the only retailer whose reporting system was unable to differentiate customer complaints separate from other reporting metrics (for example, third-party notification of sewerage overflows).

Of the 67 retailers, nine of those retailers are currently members of the Energy and Water Ombudsman SA (EWOSA) scheme.⁵ EWOSA assists customers with complaints that cannot initially be resolved between a water and/or sewerage retailer and the customer.

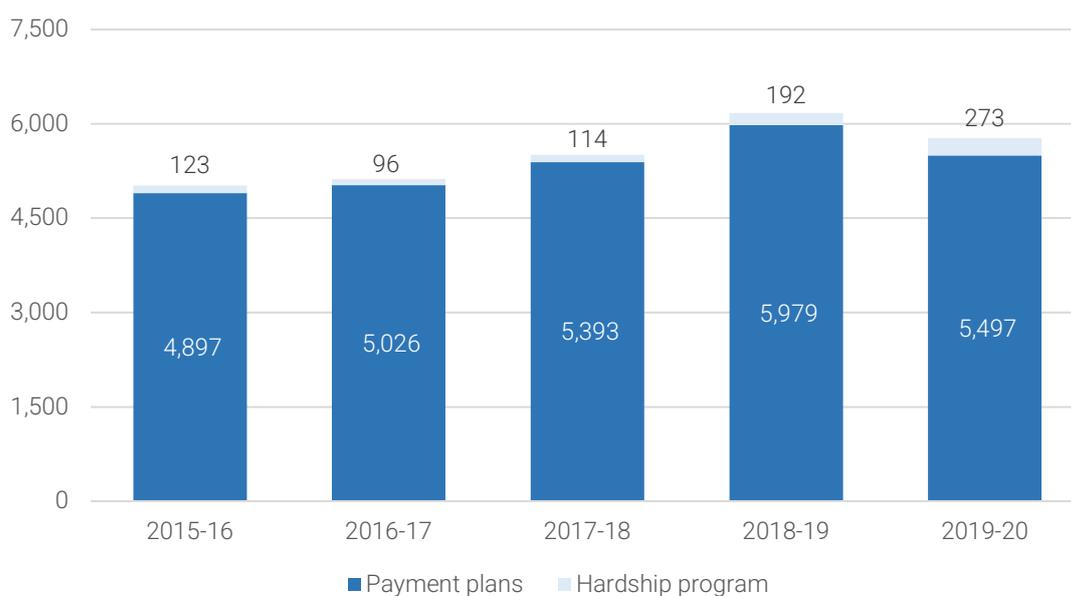
In 2019-20, EWOSA received 31 complaints in relation to the water and/or sewerage services provided by Minor and Intermediate Retailers. Of those complaints, 22 were related to Robusto Investments Pty Ltd (trading as Compass Springs), with billing being the leading complaint category.

Customers accessing financial assistance offered by Retailers

Figure 4 shows that 16 retailers reported that 273 residential customers were participating in hardship programs as at 30 June 2020, while 37 retailers further reported having 5,497 residential customers on a flexible payment arrangement plan. To put those figures in context, they represent 0.3 percent and 5.0 percent of the entire customer base serviced by Minor and Intermediate Retailers in South Australia respectively.

In comparison, as at 30 June 2019, 18 retailers reported that 192 residential customers were participating in their hardship programs and 38 retailers further reported having 5,979 residential customers on a flexible payment arrangement plan.

Figure 4: Number of residential customers on a hardship program and flexible payment plans⁶



The Hardship Policy developed by the South Australian Minister for Human Services outlines processes that a retailer must use to assist customers identified as experiencing payment difficulties. Minor and Intermediate Retailers must offer residential customers flexible payment arrangements (for example, payments in advance, short-term bill extensions and instalments).

Of those retailers who reported having customers accessing financial assistance, two (Alexandrina Council and Tatiara District Council) were unable to separately report on the number of water and sewerage service customers participating in hardship programs and flexible payment plans from their general ratepayers on comparable programs and plans.

Retailers report fewer legal actions and water restrictions to recover bad debts

⁵ The Ombudsman SA separately deals with general complaints about local councils.

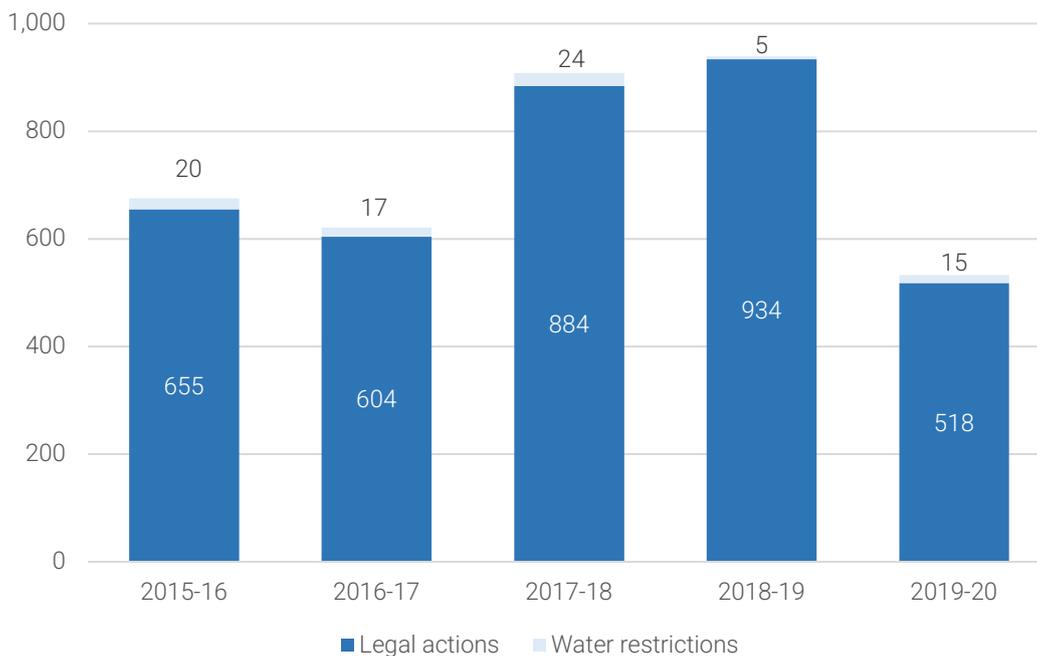
⁶ Data may not be wholly comparable from year to year due to the changes in the number of councils able to separately report on the number of water and sewerage service customers participating in hardship programs and flexible payment plans from their general ratepayers on comparable programs and plans.

Four retailers reported that 15 water restrictions were applied to residential customers for non-payment of a water bill in 2019-20. Fourteen retailers further reported having commenced legal actions against a total of 518 residential customers for non-payment of a water or sewerage service bill.⁷

Of those retailers, Alexandrina Council and Tatiara District Council were unable to separately report the number of legal actions undertaken for non-payment of a water or sewerage service bill from their general ratepayers with comparable legal action undertaken.

Figure 5 shows that in total, the number of water restrictions and legal actions undertaken for non-payment of a water or sewerage service bill have fallen to 533 in 2019-20, compared to the total of 939 reported in the previous year. A key reason for the decrease is that many retailers suspended such actions (at different times during the year) to provide temporary relief for customers from the social and economic impacts of COVID-19.

Figure 5: Number of water restrictions and legal actions undertaken against residential customers for non-payment of a water or sewerage bill



Retailers must not disconnect a customer’s supply of a sewerage service or water service for non-payment of a bill. They may, however, restrict the supply of a water service by constraining the maximum flow of water into a property or may commence debt recovery action for non-payment of a bill (although not both simultaneously), but only as a last resort.

Before arranging for the restriction of water services, a retailer must use their best endeavours to contact the customer to offer financial assistance – for example, offering access to its financial hardship program.

⁷ Legal action commences from issue of summons. It does not include where a retailer threatens to take legal action, but does not proceed.

Retailers' reliability performance

The Water Retail Code sets quality, safety and reliability of supply requirements for Minor and Intermediate Retailers.⁸ Notably, retailers must:

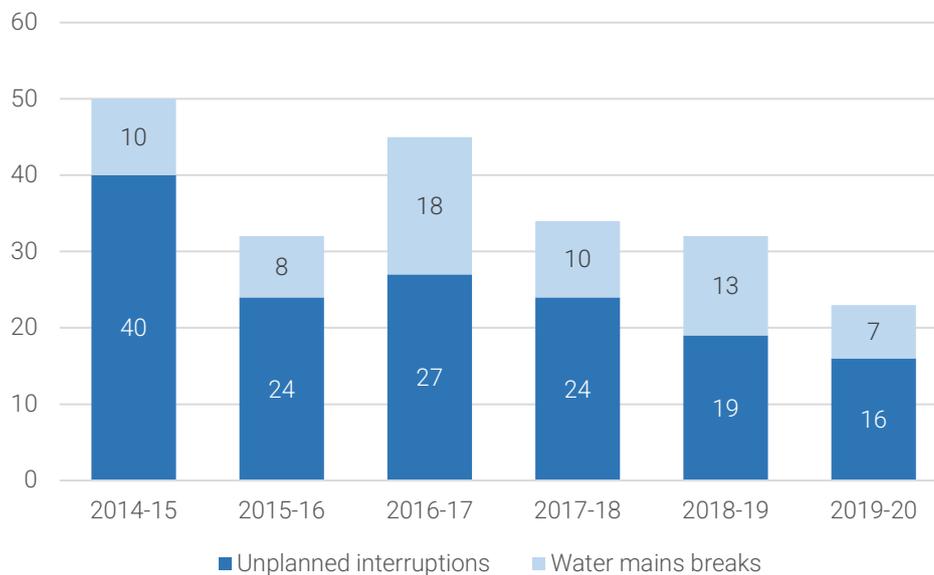
- ▶ provide a reliable supply to customers
- ▶ minimise the frequency and duration of interruptions, and
- ▶ have in place policies, practices and procedures to minimise the impact of unplanned interruptions.

All Minor and Intermediate Retailers must provide a reliable supply to customers, minimise the frequency and duration of interruptions, and have in place policies, practices and procedures to minimise the impact of unplanned interruptions.

Retailers report fewer unplanned interruptions and mains breaks for drinking water services

Figure 6 shows that five drinking water retailers reported a total of 16 unplanned interruptions in 2019-20, affecting 738 customers. Three retailers reported a total of seven water mains breaks. In comparison, a total of 32 unplanned interruptions and mains breaks for drinking water services were reported in the previous year.

Figure 6: Number of unplanned interruptions and mains breaks for drinking water services

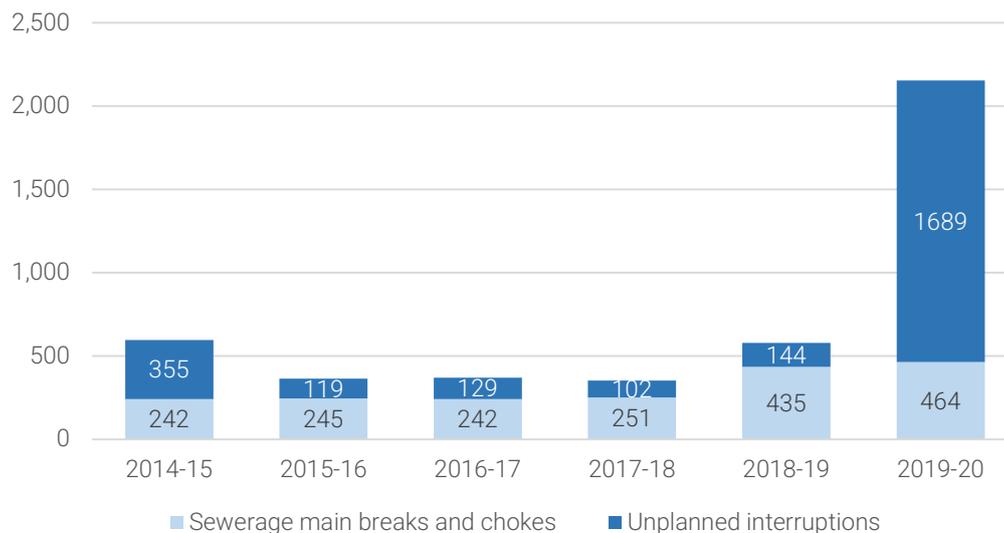


Retailers report more unplanned interruptions and mains breaks for sewerage services

Nine sewerage retailers reported a total of 1,689 unplanned interruptions to sewerage services, a significant increase compared to previous years. Twenty two retailers reported 464 sewerage mains breaks and chokes. In comparison, a total of 579 unplanned interruptions and mains breaks for sewerage services were reported in the previous year.

⁸ Infrastructure reliability data for District Council of Coober Pedy was unavailable.

Figure 7: Number of unplanned interruptions and mains breaks for sewerage services



Adelaide Hills Council – impact of the Cudlee Creek bushfire on the CWMS

The Adelaide Hills Council provides CWMS services to approximately 1,800 properties. Of the 1,689 unplanned sewerage interruptions reported in 2019-20, 1,617 (96 percent) of those were related to the Adelaide Hills Council. Prior to 2019-20, the Council did not report any instances of unplanned sewerage interruptions.

The unusually high number of unplanned sewerage interruptions reported by the Adelaide Hills Council in 2019-20 was caused by the Cudlee Creek bushfire on 20 December 2019. That single event resulted in power outages for thousands of properties and interrupted the operation of the CWMS. Information provided by SA Power Networks on the bushfire also noted that power restoration efforts were impeded by inability of restoration crews to gain safe access to fire grounds and difficulties to disconnect unsafe premises prior to restoring supply.

Based on the information available to it, the Commission considers that there is no evidence of a deteriorating trend in the reliability performance of CWMS services provided by the Adelaide Hills Council once the adverse impacts from Cudlee Creek bushfire have been excluded.

City of Tea Tree Gully Council – transition of properties from the CWMS to SA Water’s sewer system

The City of Tea Tree Gully Council provides CWMS services to approximately 4,900 properties. Of the 464 sewerage mains breaks and chokes reported in 2019-20, approximately 320 (69 percent) of those were related to CWMS services provided by the City of Tea Tree Gully Council.

An asset management report previously prepared for the Council had identified the ageing infrastructure to be a key contributor and that Council crews are increasingly responding to incidents of clay pipes cracking and blockages.⁹ This case highlights the adverse effect that deferral of capital expenditure can have on the long-term reliability outcomes for customers and the importance of councils managing expectations around pricing and the level of investment necessary to sustainably maintain and replace assets.

In June 2020, the South Australian Government announced the transition of the City of Tea Tree Gully’s CWMS to SA Water.¹⁰ In doing so, SA Water will assess the condition of the CWMS to map the immediate and long-term works required to bring its performance up to standard, and will work together with both the City of Tea Tree Gully Council and the CWMS customers.

It is likely that the transition of customers will be undertaken in a staged approach over several years, with prioritisation based on a range of factors, including a condition assessment of the existing assets. The City of Tea Tree Gully will retain ownership of the CWMS and residents will remain customers of the Council until they are transferred to SA Water.

⁹ Refer: https://www.teatreegully.sa.gov.au/files/assets/public/community_wastewater_management_system_cwms_asset_management_plan_-_2018_-_final.pdf.

¹⁰ Refer: <https://www.premier.sa.gov.au/news/media-releases/news/sewerage-solution-for-north-east-suburbs>.

Based on the information available to the Commission, the CWMS appears to need operational funding over the transition period until the transfer of assets to SA Water takes effect. Given the degradation of the asset stock to date, this will be a significant undertaking.

The Commission notes that both the City of Tea Tree Gully Council and SA Water now have the collective responsibility to manage the associated risks in a manner that meets the expectations of the customers (and licence obligations). This will require some form of regular and meaningful communication regarding the progress to the Council's impacted residents.

How compliant were Minor and Intermediate Retailers with their regulatory obligations?

The Commission is required to monitor and, if necessary, take enforcement action in respect of the compliance of water and sewerage retailers on an ongoing basis. To do so, it uses a broad range of sources and tools to elicit information and verify whether entities are complying with their obligations. The information is then used to provide feedback to entities and inform the Commission's compliance and enforcement work.

Throughout the year there are matters that may require further investigation and/or compliance actions taken to mitigate consumer impact and to rectify any adverse actions or behaviours.

During 2019-20, the Commission did not identify any material non-compliance relating to the majority of Minor and Intermediate Retailers' performance. However, it notes the ongoing remedial action plan implemented by the District Council of Coober Pedy in response to the Commission's investigation, as discussed below.

Outcomes from the investigation into the District Council of Coober Pedy's regulatory compliance

The District Council of Coober Pedy holds an electricity and water licence issued by the Commission. In 2019-20, the Commission investigated Council's compliance with the legislation, codes and various licence obligations relating to billing, payment arrangements and restriction processes. That investigation identified deficiencies in the Council's systems and processes that adversely impacted customers. Accordingly, the Commission directed the Council to review, amend and implement revised compliance systems, processes, controls and documentation.

The Commission published its findings¹¹ and will continue to monitor and assist the District Council of Coober Pedy to correct the non-compliances identified. The Commission requires the Council to resolve these issues and, if necessary, may take further compliance action in accordance with its Enforcement Policy to protect consumers' long-term interests with respect to the price, quality and reliability of the essential services provided by the District Council of Coober Pedy under licence

The Essential Services Commission is an independent statutory authority with functions in a range of essential services including water, sewerage, electricity, gas, rail and maritime services, and also has a general advisory function on economic matters. For more information, visit www.escosa.sa.gov.au.

Essential Services Commission
GPO Box 2605 ADELAIDE SA 5001
Telephone: (08) 8463 4444 E-mail: escosa@escosa.sa.gov.au Web: www.escosa.sa.gov.au

¹¹ Refer: <https://www.escosa.sa.gov.au/projects-and-publications/projects/corporate/coober-pedy-compliance-review>.