



Australian Government
National Water Commission

Chair and Chief Executive Officer

Mr Pat Walsh
Chairperson
Essential Services Commission of South Australia
GPO Box 2605
Adelaide South Australia 5001

Dear Mr Walsh

Inquiry into the 2008/09 Water and Wastewater Pricing Process

Thank you for the opportunity to comment on the 2008/09 water and wastewater pricing process.

Paragraph 77 of the National Water Initiative (NWI) requires states and territories to use independent bodies to set or review charges, or charge setting processes, for water storage and delivery services provided by government water providers. The National Water Commission acknowledges that the current arrangements in South Australia—whereby the Essential Services Commission reviews the process the South Australian Cabinet uses to set water and wastewater charges for SA Water—accords with South Australia's commitments to the NWI.

Notwithstanding this acknowledgement, the National Water Commission's 2007 Biennial Assessment of progress in implementation of the NWI noted that some of the major prerequisites for achieving improved water charging outcomes derive from reforms outside of the NWI. One such reform area, specifically identified by the National Water Commission, was for stronger independent charging oversight in some states.

The National Water Commission considers that strong and independent charging oversight which is delivered under a sound and transparent regulatory framework is important for promoting transparency in charging arrangements and ensuring that approaches to setting charges are technically sound. It is the National Water Commission's view that moving water and wastewater charging and revenue decisions away from Government has the additional benefit of reducing the potential for conflicts of interest that may arise where shareholders of the water utility set charges in the absence of competitive markets.

The National Water Commission considers that the water charging arrangements in South Australia would be improved by granting the Essential Services Commission of South Australia additional powers to set water and

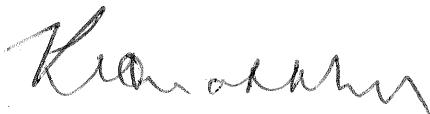
wastewater charges in South Australia. In this context, the observation made in the Biennial Assessment to strengthen charging oversight arrangements is particularly relevant to the charging arrangements that apply to the operations of SA Water.

The National Water Commission would also strongly support the Essential Services Commission having a role in setting water planning and management charges once policy positions in this area are further developed in South Australia.

Independent economic regulatory authorities are being used to set water, wastewater and water planning and management charges successfully in other jurisdictions. For example, in Victoria, the Essential Services Commission sets water and wastewater charges for all government-owned water businesses. In New South Wales, the Independent Pricing and Regulatory Tribunal (IPART) undertakes a comprehensive inquiry process into the costs the Department of Water and Energy incurs in undertaking water planning and management activities. IPART then sets the share of water planning and management costs that are recovered from water users.

The National Water Commission would encourage South Australia to consider these opportunities to strengthen the charging oversight powers of the Essential Services Commission—especially in light of the benefits strong and independent charging oversight can deliver.

Yours sincerely



Ken Matthews

4 April 2008