



**Annual SACOSS Briefing to the Minister:  
Water Pricing Issues Affecting South Australian Consumers**

**June 2021**

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## Background

The Consumer Advocacy and Research Fund (CARF) is established under the *Water Industry Act 2012* (WI Act) to support research or advocacy that promotes the interests of consumers with a disability, low-income consumers, or consumers who are located within a regional area of South Australia; or to support projects that advance the interests of consumers from an advocacy perspective.

SACOSS is funded via the CARF to support an ongoing research and advocacy program with the objective to ensure that consumers specified in the WI Act are effectively represented in water regulatory determinations, policy making and research and advocacy project development.

During 2020/21, the administration of the CARF was transferred from the Department of Human Services (DHS) to the Department of Environment and Water (DEW). As such, this annual briefing on water pricing issues affecting South Australian consumers and summary of activities undertaken through the year is being prepared for both the Minister for Human Services and the Minister for Environment and Water.

## Executive Summary

The SACOSS 2021 annual briefing on water pricing issues affecting South Australian consumers provides evidence that:

- Communal debt for water supply is continuing problem for some remote Aboriginal communities in South Australia, with one community reporting debt levels around \$90,000 to \$100,000, and another community still struggling with debt following a period of 12 months where water flow was restricted.
- Water reforms have mostly remained silent on addressing the gap in standards of service delivery for water services in smaller regional and remote communities.
- Recent droughts, bushfires and the impacts of COVID-19 have brought the difference of service levels between major cities and regional and remote communities into contrast.
- Responsibility for water management in South Australia is distributed across a number of government agencies and stakeholders and various pieces of legislation. This complexity adds to confusion in leadership and a lack of direction and accountability.
- The introduction of the *Water Industry Act 2012* established a new regulatory framework for South Australia. The implementation of the Act (and its associated policy and regulation) has focussed on larger water entities (such as SA Water) to the benefit of communities in larger metropolitan areas.
- Prioritising access to safe and affordable water in regional and remote communities and commitment by government to improving the policy and regulatory arrangements in remote and regional communities will deliver improvements and better social and health outcomes.

In light of the above findings, SACOSS recommends that:

- The definition of water security should explicitly consider social equity imperatives, balancing environmental, economic, social, human health and cultural outcomes.
- The draft water Security Statement should acknowledge the negative health outcomes inherent in not providing citizens with access to safe, affordable and reliable drinking water.
- The State Government's planned water security audit and risk assessment for self-supplied remote communities is properly resourced and expanded to include those serviced by SA Water under the remote communities' scheme.
- The State Government commits to developing a basic level of service for all South Australians.
- Water security strategies are developed **urgently** in regional and remote communities where there is not an immediate economic imperative, using a tailored, community-led approach.

- The *Water Industry Act 2012* Review process further investigates/consults on:
  - Whether the definition of ‘retail services’ under the Act operates as a disincentive for SA Water to propose a ‘stand-alone’ option in its regulatory business proposal, as opposed to a network option.
  - The follow-up to the *SA Inquiry into Water Prices* investigates the influence of pricing and price setting processes in supporting an efficient water industry; the transparency and independence in price setting processes; and the prudence and efficiency of all water planning and management-related costs incurred by SA Water, including the manner in which they are recovered; and
  - The proposed removal of section 37 of the *Water Industry Act 2012*

# Impacts and inequities of water debt and restrictions in Aboriginal Communities

## Background

SACOSS engaged David Rathman to undertake a follow-up to the 2020 scoping study<sup>1</sup> identifying water issues affecting Aboriginal residents living in regional and remote communities in South Australia. The follow-up project aimed to explore the impacts and inequities of water debt and restriction which were flagged by stakeholders in the scoping study. This briefing outlines some interim key findings from the project.

## Key findings

**Water debt is a problem for some at the community level, rather than an individual family or household level.** In most of the community and homeland groups spoken to as part of the project, communal responsibility for water bills was used as a model to manage payments and debt. This requires a level of mutual obligation on the part of the residents. In some cases, this involves the community receiving one account for the cost of water delivered to the community gate, and an arrangement being put in place by the Community Council or Land Holding Authority to collect funds to meet the payments. When crisis occurs, the community acts as corporate body to resolve any problems that may occur. There are other communities such as Gerard where residents are tenants of SA Housing and pay rent, which are believed to also cover water usage.

**Bulk meters are installed in many Lands Trust community areas and homelands which add to the complexity** of who is using excess amounts of water and causing some groups to be left with the task of billing groups using the land and resources of the community. Water meters were viewed as a solution by some and whilst it has worked in some groups; others suggested that it was not working because no one reads the meter.

**Debt to the community for water supply is continuing problem** for several of the groups David spoke with and the debt is growing in some cases without any apparent means of resolving the issue of community water debts, or mechanisms to write off debt. This was particularly an issue in the Dunjiba Community, which is explored in further detail in the case study section below.

**Communal debt** is very difficult for the groups to recoup money for water use by the individual households. The community hasn't needed to worry about debt in the last decade because the community was supported with grants for municipal services and community administration.

**Debt is an issue beyond water**, with residents reporting that the most pressing issue for many households is the cost of electricity. Further, it was reported that Housing SA has taken over

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<sup>1</sup> SACOSS (2020) [Scoping Study on Water Issues in Remote Aboriginal Communities](#)

management of housing in a number of Aboriginal communities with residents now required to pay rent. Some have questioned the demolition of housing as it appears the authority is no hurry to replace the structures. This speaks to the need for an integrated approach to essential services in remote Aboriginal communities and homelands.

Two case studies are detailed in the section below to illustrate the issues raised by stakeholders.

## Case Studies

As noted in the original scoping study, there are several stakeholders involved in delivering water to remote Aboriginal communities and homelands, which contributes to confusion for residents around who to talk to and negotiate with when problems arise. These concerns were reiterated by a community member questioning, “who in Government is responsible for Aboriginal Community water supply; SA Water. Who do I go and see - federal assistance wasn’t available.” Another has noted that while people come in to test the water to report back to the retailer, “there is no community feedback” and “the community doesn’t get reports; nothing is dropped on the table.”

The issue of how water is supplied to communities, billing arrangements, responsibilities and governance was also raised in the original scoping study. Across several remote communities in South Australia, SA Water are responsible for water infrastructure and treatment from the supply source to the water meter, which is typically located at or near the community boundary.<sup>2</sup> Beyond communities where SA Water are obliged to supply, a mix of private providers and Councils are responsible for delivering water services to remote Aboriginal Communities and Homelands in South Australia.

Other remote Aboriginal communities and homelands receive their water under the “Water West Scheme” and are billed by the District Council of Ceduna. The Commonwealth Government provides grant funding to maintain support for water supply and other infrastructure programs in the Maralinga lands and the APY lands.

## Umoona

The Umoona community is part of Coober Pedy in the north-west of the State. The high cost of water and its impact on health outcomes of Aboriginal members of the community have long been documented.<sup>3</sup> David reported that the Leaders of the community continue to be confronted with historical debt in the community as a result of failure on the part of those responsible for maintenance of leaking mains infrastructure; a spokesperson said, “this has resulted in two to three year debt due to loss of water because of burst pipes.”

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<sup>2</sup> Kesab Environmental Solutions & SA Water (n.d.) [Who’s looking after your water?](#)

<sup>3</sup> Willis, E., Pearce, M., McCarthy, C., Jenkin, T. & Ryan, F. (2006) Utility Stress as a Social Determinant of Health: Exploring the links in a remote Aboriginal community', *Health Promotion Journal of Australia*, vol. 17(3), pp. 255–9.

While SA Water manages scheduled services, water quality monitoring and testing, and emergency incident response at Umoona, the community are billed by the District Council of Coober Pedy, who are the water provider. Residents report that the council has made efforts to pay out the debt, but the debt is growing each year and it is estimated to be around \$90,000 to \$100,000. The representatives spoken to do not believe it has been sorted out yet. The council stopped reading meters and it is now left up to resource poor Umoona Council to manage. Whilst Umoona has attempted to pay \$2000 a month off its debt there has been no action to review its belief the community has been over charged for water. Spokespersons at Umoona believe authorities have been given money to support the community but the amount and what it is spent on is not known to the Umoona Council.

### **Yarilena**

The Yarilena community is located on the Far West Coast of South Australia, approximately 7km from Ceduna. The community is supplied by the Ceduna-Koonibba pipeline, operated by the District Council of Ceduna. The overall population in Yarilena is approximately 80 residents, with the average household being 4-5 people; one residence houses 14 people.

In the original scoping study conducted by David Rathman, the Aboriginal Lands Trust (ALT) noted that members of the Yarilena community had experienced restricted water flow for a period of 12 months due to water debt.<sup>4</sup> In David's follow-up, a community member with a sound understanding of the water situation in the community voiced the following frustrations:

- The retailer (the District Council of Ceduna) and SA Water were not listening to the advice of the people. An example was his advice not to dig too deep when laying pipes; this was ignored, and the piping was laid on top of the shallow water table causing further problems after rain events.
- While the community has bulk and household meters, maintenance was not being done and no-one was monitoring the needs of the community.
- Hard to determine where a leak is coming from when there is a problem. "We need the remote system. The smart meter would assist the community."
- The residents have started under a new rental income which will include water consumption. Paying for water is sorted and the community agrees that they need to pay for their water.
- People in charge do not provide help. Water West support, "shit."

In terms of water debt and restriction, the resident reported that the community were not getting on top of the water debt, "We had restrictions for some time. 6 months and you couldn't have a shower." The quality of the water was also mentioned as a "sore point" as

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<sup>4</sup> SACOSS (2020) [Scoping Study on Water Issues in Remote Aboriginal Communities](#), p. 20

“no-one knows what the quality of the water is because no one from health is checking. Health just stopped doing it.”

There is also an issue of maintenance of infrastructure within community boundaries interfering with water quality. A month ago, the community had infrastructure checked, and it was recommended that the rainwater tanks be cleaned and were left to pay for the clean-up. The resident feels the retailers are not going to admit they have done things wrong and need to spend dollars to replace infrastructure.

“Sorry we ever went with Water West, we should have stayed with SA Water.”

“Charges went up overnight when Water West took over; SA water was better.”

## Water Security in remote and regional communities

### Background

In May 2021, the State Government released for consultation its draft Water Security Statement (“draft Statement”), which provides an overview of the water security status for key population centres and water resources across South Australia, and includes ten strategic priorities for water security to July 2024.

In response to the draft Statement, SACOSS co-ordinated a joint community submission<sup>5</sup> with several health and social services organisations, as well as an individual submission.<sup>6</sup> The submissions build on a SACOSS commissioned report from Aither<sup>7</sup>, which aimed to identify practical recommendations and actions to improve drinking water services for those living in regional and remote South Australia.

### Key findings from the Aither report

The Aither report found that reforms over the last 20-30 years have improved the security, reliability and relative affordability of water for most South Australians. However, the challenges faced by regional and remote communities have not been adequately addressed, and many still do not have secure and reliable access to the most basic of water services.

At an aggregate level, South Australia are meeting targets for access to safe drinking water and sanitation services. However, this figure hides the reality that many smaller regional and remote communities across South Australia do not have reliable access to safe water services. While these communities may make up less than 1% of the total population, they are faced with specific and unique challenges and a system that not deigned to cater for them. This small figure can inadvertently make the challenge seem small and insignificant.

South Australia has an opportunity to lead the way in demonstrating how material improvements can be made for regional and remote communities.

### Definition of water security

The draft Water Security Statement defines ‘water security’ as:

**“Having an acceptable quantity and quality of water for people, industry, agriculture and the environment now and into the future.”<sup>8</sup>**

While managing the availability and quality of our precious water resources is important, SACOSS encourages a broader definition of water security which considers the complex and

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<sup>5</sup> [Joint Community Submission to the Government of South Australia’s draft Water Security Statement 2021](#)

<sup>6</sup> SACOSS (2021) [SACOSS Submission to Government of South Australia’s Draft Water Security Statement 2021](#)

<sup>7</sup> Aither (2021) [Falling through the gaps: A practical approach to improving drinking water services for regional and remote communities in South Australia](#)

<sup>8</sup> Government of South Australia (2021) [Draft Water Security Statement 2021: Water for Sustainable Growth](#), p. 2

interconnected challenges of water. A review of the different ‘water security’ framings in Australian policy found that there is no formal national approach or agreed definition for water security.<sup>9</sup> Crucially, the framing of ‘water security’ implicitly establishes ‘what’ is being secured, against what threats, who water security is for, and who/what is being centred or excluded.<sup>10</sup> A well-considered definition is particularly critical as water planning and management has historically decentred Aboriginal voices.

SACOSS suggests that South Australia’s definition of Water Security should go beyond the narrow lens of “water security for sustainable growth”. The need for an integrated approach to water security has been brought into focus by the impacts of climate change. This was evident in the response to the Black Summer bushfires of 2019/20 and the related threat to water quality and ecosystems. Critically, the impacts of climate change are likely to disproportionately affect water consumers on low-incomes, and those located in regional and remote areas. This is particularly the case for those living in remote Aboriginal communities who face exacerbated health risks from climate change because of factors such as remoteness, quality of the infrastructure, limited economic resources and pre-existing health burdens.<sup>11</sup>

### Recommendation

- ***SACOSS recommends that definition of water security should explicitly consider social equity imperatives, balancing environmental, economic, social, human health and cultural outcomes.***

### Water for life and health

Water is a fundamental human right and is essential for health, hygiene and life. Lack of access to clean and secure drinking water has been linked to significant health impacts including hygiene-related skin, ear, and eye infections, respiratory infections and diarrhoeal disease<sup>12</sup>. Repeated infections have also been linked with increased risk for long-term diseases including chronic kidney disease, rheumatic heart disease and renal failure.<sup>13</sup>

Given the high levels of water security for the overwhelming majority of the State’s population, it is simply unconscionable that some members of our community do not have access to safe drinking water. Notably, those living in rural and remote areas, particularly in

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<sup>9</sup> Taylor, K.S (2019) [What does ‘water security’ mean for Australia? A review of Australian policy](#), Parliamentary Library, Canberra.

<sup>10</sup> Taylor, K.S (2021) [Australian water security framings across administrative levels](#), Water Security, Volume 12

<sup>11</sup> Hall, N.L & Crosby, L (2020) [Climate change impacts on health in remote indigenous communities in Australia](#), International Journal of Environmental Health Research 1-16; Delany-Crowe, T, Marinova, D, Fisher, M, McGreevy, M & Baum, F (2019) [Australian policies on water management and climate change: Are they supporting the sustainable development goals and improved health and well-being?](#) *Globalization and Health*, vol. 15, 68.

<sup>12</sup> Knibbs and Sly (2014) [Indigenous health and environmental risk factors: an Australian problem with global analogues?](#) Global Health Action

<sup>13</sup> Hall et al. (2020) [Housing, crowding and hygiene-related infectious diseases in the Barkly region NT](#), University of Queensland, Northern Territory – for the Anyinginyi Health Aboriginal Corporation

remote Aboriginal communities and homelands, already face a higher burden of disease and poorer health outcomes, compared to those living in major cities.<sup>14</sup> In the context of South Australia’s commitment to the National Agreement on Closing the Gap, provision of safe and secure water is critical to advancing targets around long and healthy lives.<sup>15</sup>

### Recommendation

- ***SACOSS recommends that the draft water Security Statement acknowledge the negative health outcomes inherent in not providing citizens with access to safe, affordable and reliable drinking water.***

### Water security audit

The draft Statement notes that “DEW will complete a water security audit and risk assessment for self-supplied remote communities. This will involve confirming the existing water supply arrangements, assessing short and long-term risks so as to better understand future requirements, and identifying investment options to address potential water shortages.”<sup>16</sup>

SACOSS welcomes the proposed water security audit as a worthwhile starting point; however, we believe that a full stocktake of the entire State needs to be considered – both self-supplied remote communities and those serviced by SA Water under the remote communities’ scheme. We note that much of this information may already be available, and the issue may be one of consolidation of data from different sources. This will enable a basis for **state-wide decision making**, identifying priorities, investigating the root causes of challenges (including any systemic barriers), and determining the level of investment required to address to totality of the problem.<sup>17</sup>

Providing sustainable water services requires **a number of factors working together**, including suitable technologies, available financial support for capital expenditure, community support to use the scheme, viable maintenance plans with appropriate training and ongoing resourcing, and transparent mechanisms for cost recovery.<sup>18</sup>

**As such, SACOSS recommends that a genuinely comprehensive water security audit needs to consider:**

- **Supply and demand / biophysical dimensions** (e.g. main source of drinking water; adequacy of drinking water supply; treatment method of drinking water; quality of

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<sup>14</sup> Australian Institute of Health and Welfare (2019) [Rural & remote health](#)

<sup>15</sup> Commonwealth of Australia (2020) [Closing the Gap Targets and Outcomes](#)

<sup>16</sup> Government of South Australia (2021) [Draft Water Security Statement 2021: Water for Sustainable Growth](#), p. 31

<sup>17</sup> Aither (2021) [Falling through the gaps: A practical approach to improving drinking water services for regional and remote communities in South Australia](#)

<sup>18</sup> Willis E.M., Pearce M.W., Jorgensen B.S., and Martin J.F. (2015) [Water supply and governance options for outback towns in remote South Australia](#), Goyder Institute for Water Research Technical Report Series No. 15/7, Adelaide, South Australia, p. 11

water supply, including frequency of water testing and issues such as salinity with may affect the life of infrastructure)

- **Technology and infrastructure requirements** (e.g. Age and viability of current technologies and water sources; housing and infrastructure requirements; Power access and requirements)
- **Systems and governance arrangements** (e.g. Current ownership, operating and service arrangements of infrastructure, including responsibility for maintenance and ownership arrangements both outside and inside community boundaries; supply and billing arrangements; funding arrangements);
- **Social, cultural, economic, material resource dimensions** (e.g. Current/required community water access processes; existing water use cultures; water needs for health and cultural practices; affordability and willingness to pay);

#### **Recommendation**

- ***SACOSS recommends that the planned water security audit and risk assessment for self-supplied remote communities is expanded to include those serviced by SA Water under the remote communities' scheme. Further, the audit should incorporate a socio-ecological framework and not be limited by a "supply and demand" approach.***

#### **Basic level of service**

SACOSS supports the draft Statement's strategic priority to "work proactively with water retailers and other stakeholders to ensure critical human water needs continue to be prioritised appropriately and that water planning processes support the setting of objective water security standards where required." (Strategic priority 5)

The setting of an objective water security standard or "basic level of service" is critical for providing a clear direction for government policy, and to enable the Essential Services Commission of South Australia (ESCOSA) to have a benchmark to regulate against. This would also enable conversation between communities, government and service providers about how basic water needs can be met under all circumstances (drought and 'normal' times). Critically, setting a minimum bar which the state government agrees to not fall below provides a clear direction for long-term decision-making and policy decisions.

#### **Recommendation**

- ***SACOSS recommends that the government to commit to developing a basic level of service for all South Australians.***

#### **Development of water security strategies**

SACOSS notes that the draft Statement only considers developing water security strategies for key water resources or priority growth industries, beginning with a trial in the Barossa Valley and McLaren Vale and through the Water and Infrastructure Corridors initiative (Strategic Priority 1). SACOSS strongly submits that water security strategies also need to be

developed urgently in regional and remote communities where there is not an immediate economic imperative, using a tailored, community-led approach.

#### **Recommendation**

- ***SACOSS recommends that water security strategies are developed urgently in regional and remote communities where there is not an immediate economic imperative, using a tailored, community-led approach. The water security planning approach should be broadened to consider a community's overarching water service arrangements (based on a comprehensive water security audit as described above), and its ability to meet a basic level of service.***

## Water Industry Act 2012 Review

### Background

The *Water Industry Act 2012* (WI Act) regulates the water and sewerage industry in South Australia. The Act commenced operation on 1 January 2013 and is subject to review after five years of operation. Following a consultation process, the review report was tabled in Parliament on 30 March 2021.<sup>19</sup> The review report contains 16 recommendations, four of which require whole of government consideration, and the remaining 12 to be implemented by the Department of Environment and Water (DEW) in consultations with stakeholders and in discussion with the Minister.

SACOSS observes that the implementation of the Act (and its associated policy and regulation) has focussed on larger water entities (such as SA Water) to the benefit of communities in larger metropolitan areas. SACOSS would welcome further engagement on specific recommendations outlined below, which have implications for pricing, service standards and customer protections for water consumers.

### Recommendation 11: Supply augmentation

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**R11**

Develop a framework for long term water security planning to support supply augmentation decisions in consideration of all potential water sources and new and emerging technologies. The framework should provide the basis for efficient and prudent investment decisions that support current and future demands and consider potable and non-potable supplies and centralised and de-centralised systems to augment supply, in line with the recommendations of the Productivity Commission.

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SACOSS has several queries in relation to whether there is a disincentive for SA Water to propose a 'stand-alone' option as opposed to a network option in its regulatory business proposal, even where the stand-alone option might be more efficient and cost-effective. We question whether 'stand-alone' water supply options fall within the definition of 'retail services' under the WI Act. and whether this could work against SA Water properly costing and proposing 'place-based' solutions for regional locations where it has an obligation to supply (as it would potentially not be permitted to recover the costs of stand-alone systems through its allowed revenue).

#### Definition of 'retail services'

Section 17 of the WI Act declares that the water industry is a regulated industry for the purposes of the ESC Act. Accordingly, ESCOSA has a general power to regulate prices in the water and sewerage industries.

In terms of ESCOSA's price regulation function, section 7 of the WI Act provides that:

*7 — Functions and powers of Commission*

*(1) The Commission has (in addition to the Commission's functions and powers under the Essential Services Commission Act 2002) —*

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<sup>19</sup> Government of South Australia (2021) [Review of the Water Industry Act 2021](#)

*(a) the licensing, price regulation and other functions and powers conferred by this Act.*

Section 35 of the WI Act provides ESCOSA with the discretionary power to make a price determination for ‘retail services’:

*35 — Price regulation*

*(1) Subject to this section, the Commission may make a determination under the Essential Services Commission Act 2002 regulating prices, conditions relating to prices, and price fixing factors for **retail services**.*

A ‘retail service’ is defined in section 4 of the WI Act to mean a service constituted by:

*(a) the sale and supply of water to a person for use (and not for resale other than in prescribed circumstances (if any)) **where the water is to be conveyed by a reticulated system**; or*

*(b) the sale and supply of sewerage services for the removal of sewage, (even if the service is not actually used) but does not include any service, or any service of a class, excluded from the ambit of this definition by the regulations*

In a previous Regulatory Determination, this has been interpreted by ESCOSA to **exclude** the provision of network services on a stand-alone basis (see [SAWRD16](#) p. 22):

*‘Accordingly, any operations or services falling outside the scope of the above definition are not subject to price regulation by the Commission – for example, the provision of network services on a stand-alone basis.’*

This would indicate that even where a ‘stand-alone’ option would be more efficient, SA Water will always seek ‘reticulated system’ options for the sale and supply of water to customers in its network, as these are the only operations or services that fall within the scope of the definition of ‘retail services’ and are therefore subject to price regulation by ESCOSA (allowing SA Water to recover the costs of these services from consumers). Notably, in the most recent price determination ([SAWRD20](#)), SA Water sought to recover costs associated with the Zero Cost Energy Future program, but ESCOSA found this program did not constitute a ‘retail service’ and was therefore not a ‘regulated activity’. ESCOSA removed all costs and savings of ZCEF from the revenue determination, stating ‘All risks of the project will accrue to SA Water and its owner, the South Australian Government’ (page 49). ESCOSA also found that SA Water’s water testing service provided through the Australian Water Quality Centre, was not a retail service and was not subject to price regulation under the WI Act.

SACOSS has been unable to get confirmation of ESCOSA’s view on ‘stand-alone’ options. SA Water’s Regulatory Business Proposal for 2020-24 proposed to invest \$37.7 million during SAW RD20 to provide potable water supplies to 340 properties across 19 systems that currently have a non-potable water supply. Seventeen of these systems are in the upper

north of South Australia. The initial focus was on northern railway towns, with the remaining 310 properties to be addressed during SAW RD24. SA Water identified a range of options for providing upgrades, which include: **water carting and storage, extension of pipelines, desalination, and point of use treatment**. It stated that the selection of which properties to upgrade was informed by multi-criteria analysis, conducted in September 2019, and that the analysis considered water quality impact, rainwater availability, water security, community resources, economic potential, current cost of water and cost of upgrades (see [Appendix 3](#) p.263). As far as SACOSS is aware, there was no specific ‘stand-alone’ solution costed and compared to a ‘network’ option as part of the proposal.

It is unclear whether ‘stand-alone’ options would have fallen within the definition of ‘retail services’ as ESCOSA’s [Draft Determination](#), was not to include expenditure for this project on another basis (page 130):

*‘...the extent of SA Water’s obligation to supply, and the broader matters of where and how potable water supplies are provided, and funded, **are matters of South Australian Government policy** that are likely to require wider consideration. The Commission agrees that these are matters of South Australian Government policy. Notwithstanding the mixed views of stakeholders on this program, in its current form, it proposes a partial solution that provides limited incremental benefits to a small number of customers at a very high cost per directly-benefitting customer. Therefore, the draft decision is to not include the \$37.7 million proposed to upgrade non-potable water supply for 340 properties.’*

Expenditure for the project (\$40.5 million in capex and \$5.2 million in operating expenditure) was included in the Final Determination 2020-24 to be recovered from all SA Water customers, as a result of the Minister’s Direction to SA Water on 28 May 2020. SACOSS notes that in evidence given to the Legislative Council Budget and Finance Committee, SA Water are still undertaking technical assessments for the project:

*“SA Water’s planning for the Oodnadatta upgrade is currently in the ‘Asset Investigations’ phase and moving into the ‘Capital Delivery’ phase. The investigations are nearing completion and are being used to inform the technical solutions. These early investigations indicate a reverse osmosis desalination solution would likely be best suited in Oodnadatta. To date, SA Water’s work has included early community engagement, concept planning with the Environment Protection Authority (EPA), trialling of new technologies, and selection of a construction partner that has been engaged to develop the design and pricing of the project. Oodnadatta will be the first to be progressed in the program of upgrades for six remote communities which will be delivered over the course of the 2020-24 period. Construction is currently*

*scheduled to commence in March 2022 with completion expected by September 2022.*<sup>20</sup>

While, a reverse osmosis desalination solution appears to be favoured at this stage, it is unclear whether 'stand-alone' options have been considered or costed for the Oodnadatta upgrade project.

From an energy perspective, it is worthwhile to note that the Australian Energy Market Commission (AEMC) reviewed the regulatory arrangements for stand-alone power systems in the last couple of years (as currently the national energy laws and rules only apply to the interconnected electricity grid). The [Statutes Amendment \(National Energy Laws\) \(Stand-Alone Power Systems\) Act](#) was passed this month and came after the AEMC's [2019](#) and [2020](#) reports recommending changes to energy laws and rules **to enable distributor-led SAPS when this is cheaper than maintaining a grid connection**. The AEMC has made a suite of recommendations for changes to energy laws and rules to enable the use of stand-alone power systems by distributors. On 25 March 2021, the AEMC announced the Energy Ministers are consulting on changes needed to ensure consistency between the changes to the Law.

### **Recommendation 3: Inquiry into influence of pricing and price setting processes**

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Following on from the *SA Inquiry into Water Prices*, further investigate the influence of pricing and price setting processes in supporting an efficient and competitive water industry. This could consider best practice principles in other jurisdictions, the recommendations of the pricing Inquiry, the outcomes of the Commission's inquiry into regulatory arrangements for small-scale and off-grid water, gas and electricity services, the NWI pricing principles and any future updates to the NWI.

The investigations should consider:

- price setting methodology (e.g. setting maximum price vs setting revenue cap) across all water sources (e.g. retail, recycled/reuse, bulk)
- R3** • whether or not the value of the regulated asset base should be more firmly fixed through parliamentary processes
- the role price can play in incentivising the uptake of alternative water sources
- consideration of the role of state-wide pricing on equity and competition, including the impacts of community service obligation payments
- consideration of the applicability of community service obligation payments for water industry entities other than SA Water.

Where relevant, the outcomes from these investigations should inform SA Water's next regulatory business proposal and the subsequent revenue and pricing determination processes.

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SACOSS is of the view that the 2018 SA Inquiry into Water Pricing<sup>21</sup> was particularly narrow in its scope and would welcome further investigations into the influence of pricing and price setting processes in supporting an efficient water industry.

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<sup>20</sup> Parliament of South Australia (2021) [Transcript of Evidence and supplemental- SA Water - David Ryan 9.03.21](#) , Legislative Council Budget and Finance Committee, p. 38

<sup>21</sup> <https://www.treasury.sa.gov.au/south-australia-water-pricing-inquiry>

SACOSS would support further consideration of the NWI Pricing Principles, including Principle 3 of the NWI Pricing Principles, which covers the recovery of costs from water planning and management (WPM) activities, and provides for a cost-effectiveness test:

**Clause 16: *‘Having identified water planning and management costs to be recovered from water users, in whole or in part, activities should be ‘tested’ for cost-effectiveness by an independent party and the findings of the cost-effectiveness review are to be made public’.***

SACOSS would also support further investigation into the issues of transparency and independence in price setting processes; in line with recommendations in the Productivity Commission’s Draft Report:

**‘Regulators must also be supported by appropriate governance and institutional arrangements. Ensuring that economic regulation is transparent and independent provides accountability, better aligning regulatory decisions with long-term consumer interests. And institutional separation, with a clear relationship between utilities and their government shareholders and regulators, remains important and should be retained as a principle under the NWI.’<sup>22</sup>**

The Essential Services Commission of South Australia’s 2014 *Inquiry into Reform Options for SA Water’s Drinking Water and Sewerage Prices* found that water planning and management charges paid by SA Water’s customers may not be economically efficient. The Final Inquiry Report recommended that (recommendations 12 and 13):

- The Government should consider commissioning an independent public review of the prudence and efficiency of all water planning and management-related costs incurred by SA Water, including the manner in which they are recovered.
- Until such a review is conducted, SA Water should make it clear on customers’ bills that a water planning and management payment is being collected through them – and that this is being done for the benefit of the wider South Australian public.

In 2014 ESCOSA also expressed a view that SA Water’s WPM costs should be balanced (trued-up) prior to the commencement of the next price determination period (which was on 1 July 2016), allowing for any excess revenue or additional costs to be taken into account so SA Water customers only face true WPM costs in the next regulatory period.<sup>23</sup>

In its 2013 Regulatory Determination for SA Water<sup>24</sup>, ESOCSA indicated the (then) Department of Environment, Water and Natural Resources had stated the WPM

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<sup>22</sup> Productivity Commission, [National Water Reform 2020 Draft Report](#), p.147

<sup>23</sup> <https://www.escosa.sa.gov.au/ArticleDocuments/436/20150128-Water-InquiryReformOptionsSAWatersDrinki.pdf.aspx?Embed=Y>

<sup>24</sup>[https://www.escosa.sa.gov.au/ArticleDocuments/488/130527-SAWater\\_Water\\_SewerageRevenu.pdf.aspx?Embed=Y](https://www.escosa.sa.gov.au/ArticleDocuments/488/130527-SAWater_Water_SewerageRevenu.pdf.aspx?Embed=Y)

arrangements were a ‘transitional measure, and that it is intended that the amounts attributed to, and recovered from, SA Water (and its customers) and other beneficiaries will be reviewed before the end of the current SA Water Revenue Determination’ (i.e. by 2016).

As far as SACOSS is aware, none of these recommendations or promised reviews of WPM costs have occurred. The 2018 Water Pricing Inquiry **specifically excluded from consideration** the ‘costs included by the Essential Services Commission of South Australia (ESCOSA) by virtue of them being included in a Direction issued by the Minister for Environment and Water under section 6 of the *Public Corporations Act 1993*’.<sup>25</sup>

At the Direction of the Minister for Environment and Water, SA Water is required to pay water planning and management (WPM) costs to the Department for Environment and Water. By virtue of the Treasurer’s Pricing Orders to the Essential Services Commission,<sup>26</sup> the WPM charges SA Water incurs are ultimately paid for by its customers. These costs are not publicly scrutinised, not visible on customers’ bills and send distorted price signals to water users.

\$131m in WPM costs were included in Direction ‘F’ of the Minister’s Direction made on 28 May 2020.<sup>27</sup> Applying the Treasurer’s Pricing Order, ESCOSA have allowed SA Water to recover the \$131m in WPM operating expenditure from its customers, over the coming four-year period. Given there is no clarity around what this money will pay for, there is no guarantee the activities are cost-effective or costs incurred by customers are reflective of the cost of providing water services, and therefore the recovery of these costs arguably deviates from the [NWI Pricing Principles](#) (COAG Agreement, 23 April 2010).

Under the NWI Pricing Principles, Governments agreed that ‘if a decision was made not to apply these principles in a particular case, the reasons for this would be tabled in parliament’. To our knowledge the \$131m in WPM costs has not been tested for cost-effectiveness and the reasons for this have not been table in parliament.

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For SA Water PD2013 ESCOSA found these charges will total \$51.4 million (equating to approximately \$78 for each water customer across the three years) (Table 9.1). For SA Water PD 2016, these charges will total \$74.8 million (equating to approximately \$113 for each water customer across the four years) (Table 9.1).

<sup>25</sup> [https://www.treasury.sa.gov.au/\\_data/assets/pdf\\_file/0010/93646/2018-12-A-Cautious-Conclusion-report.pdf](https://www.treasury.sa.gov.au/_data/assets/pdf_file/0010/93646/2018-12-A-Cautious-Conclusion-report.pdf) p.3

<sup>26</sup> [https://www.treasury.sa.gov.au/\\_data/assets/pdf\\_file/0011/41123/Pricing-Order-for-the-Regulatory-Period-1-July-2020-to-30-June-2024.pdf](https://www.treasury.sa.gov.au/_data/assets/pdf_file/0011/41123/Pricing-Order-for-the-Regulatory-Period-1-July-2020-to-30-June-2024.pdf)

And [https://www.treasury.sa.gov.au/\\_data/assets/pdf\\_file/0003/215139/Second-Pricing-Order-for-the-Regulatory-Period-1-July-2020-to-30-June-2024.pdf](https://www.treasury.sa.gov.au/_data/assets/pdf_file/0003/215139/Second-Pricing-Order-for-the-Regulatory-Period-1-July-2020-to-30-June-2024.pdf)

<sup>27</sup> Direction to SA Water pursuant to section 6 of the *Public Corporations Act 1993*, <https://www.escosa.sa.gov.au/ArticleDocuments/21489/20200611-Water-DirectionsUnderSection6PublicCorporationsAct1993-GazetteNotice.pdf.aspx?Embed=Y>

## Recommendation 7: Regulatory arrangements for small scale water retailers

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**R7**

Continue the use of a tiered licensing approach to manage the diversity of water retailers efficiently and ensure fit for purpose regulation. This should continue to operate at an administrative level managed by the Commission as the independent regulator, and be informed by the current inquiry into regulatory arrangements for small-scale and off-grid water, gas and electricity services being undertaken by the Commission.

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SACOSS does not support reduced regulatory reporting obligations for small scale water retailers, particularly in relation to important consumer protections for customers who may already be disadvantaged by remote locations, inadequate water supply and increased costs. SACOSS is looking forward to the opportunity to provide further feedback on this proposed recommendation, in line with our submission to ESCOSA on the small-scale networks inquiry.<sup>28</sup>

## Recommendation 8: Exemption regimes

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**R8**

Work with stakeholders to develop criteria for a formalised exemption regime within the Water Industry Act Regulations and for other parts of the Act. A focus for exemption should be very small-scale, not for profit, non-potable suppliers.

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SACOSS has concerns about exemption regimes which exclude customers from accessing important consumer protections and refers the Department to our recent submission to the Parliamentary Inquiry into embedded networks in SA.<sup>29</sup>

## Recommendation 15: Hardship provisions

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**R15**

Remove section 37 of the Act in relation to the Minister's hardship provision to avoid confusion between sections of the Act. The Government should establish the hardship policy intent for the Commission to operationalise through the retail codes and associated licence conditions. This could provide flexibility to make allowances for existing Local Government Act hardship provisions.

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SACOSS is looking forward to further consultation on the proposed removal of section 37 of the *Water Industry Act 2012*. SACOSS is extremely concerned about the proposed removal of this section which currently provides for customer hardship policies that must be adopted by water retailers across the State. These hardship policies specifically apply to tenants in accordance with section 37(5) of the Act. SACOSS considers the removal of this section in line with the recommendation would operate to significantly reduce supports and consumer protections for water consumers across South Australia. Given the potential harm the removal of this section could cause on water consumers, SACOSS is expecting more involved consultation on this proposed recommendation. We strongly oppose progressing this recommendation without further consultation taking place.

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<sup>28</sup> SACOSS, [Submission to ESCOSA's Draft Inquiry Report into the regulatory arrangements for small-scale water, sewerage and energy services](#), September 2020

<sup>29</sup> SACOSS, [Submission to the Economic and Finance Committee Parliament of South Australia: Inquiry into Embedded Networks in South Australia](#), May 2021