

SA Water's Regulatory Proposal – Key Consumer Concerns

SA Water (SAW) provides water and sewerage services to over 1.5million South Australians. The business is owned by the South Australian Government, governed by a Board of Directors and reports to the Minister for Water¹. The Essential Services Commission of South Australia (ESCOSA) is the economic regulator for SAW² and as per its regulation duties is currently conducting a review to 'determine the maximum amount of revenue that SAW can recover from its customers ... for the delivery of water and sewerage retail services' for July 2016 – June 2020³.

Price Path

As part of the review process SAW must submit a Regulatory Business Proposal (RBP) to ESCOSA documenting their proposed costs for delivering water and sewerage retail services to consumers⁴. This includes an indicative price path based on SAW's proposed allowed revenues. SAW has outlined the following price path for the next regulatory period⁵:

Change (%)	2016-2017	2017-2018	2018-2019	2019-2020	Total
Water price	-0.7%	2.5%*	2.5%*	2.5%*	6.9%
Sewerage price	-9.0%	2.5%*	2.5%*	2.5%*	-2.0%

*Inflation assumption of 2.5% per year.

Some Initial SACOSS Concerns

SACOSS has identified 3 areas of initial concern with SAW's proposed capital expenditure that require further investigation. These are outlined below⁶:

1. Structures (water networks): renew and replace elements of structures (e.g. concrete) to avoid failure and eventual loss of water supply. Cost is \$104.6million;
2. Kangaroo Creek Dam safety project: upgrade of works across the 1st & 2nd regulatory period to ensure safety of the community downstream of the dam and compliance with national guidelines. Cost for construction works is partially deferred to the 2016 -2020 period, \$29.1million and,
3. Information technology: improving business and customer efficiencies, planning for the future and asset lifecycle program. Cost is \$115million.

Benchmarking

An important element of the 'regulatory review is the assessment of the efficiency of forecast operating and capital costs'⁷ to ensure water and sewerage retail services are delivered for the lowest long term costs. The Centre of International Economicsⁱ (CIE) has conducted benchmarking analysis of SAW against other water business around Australia.

¹ SA Water, About us, <https://www.sawater.com.au/about-us/about-us>.

² SA Water, Who are we?, <https://www.sawater.com.au/about-us/legislation-and-policies/regulation-of-sa-water>.

³ ESCOSA 2015, SA Water Regulatory Determination, <http://www.escosa.sa.gov.au/projects/231/sa-water-regulatory-determination-2016.aspx>.

⁴ Ibid.

⁵ SA Water 2015, *Regulatory Business Proposal 2016 – 2020*, http://www.sawater.com.au/data/assets/pdf_file/0020/26921/RBP-2016.pdf, p. 15.

⁶ Ibid, pp. 77, 63 & 197.

⁷ The Centre for International Economics 2012, *Top down efficiency review of SA Water*, <http://www.escosa.sa.gov.au/library/121012-TopDownEfficiencyReviewSAWater-CIERReport.pdf>, p. 7.

Benchmarking utility businesses is a complex process due to a number of factors including diversity in: geography and rainfall; government requirements; jurisdictional industry structures and the 'varying costs of obtaining water'⁸. There are also various economic models that are used to determine business efficiency. For the purpose of this paper, the benchmarking analysis provided by CIE is built upon examining unit costs, productivity measures and statistical efficiency measures that consider the relative performance of SAW's capital and operating expenditures in providing water and sewerage services to customers in Adelaide⁹.

Based on the efficiency factors outlined above the CIE found the following¹⁰:

- Simple unit costs: SAW 'has amongst the lowest operating costs per property of Australian urban water utilities [and] historically relatively low capital expenditure'. However recent expenditure on the Adelaide Desalination Plant 'pushed [SAW] well above average capital expenditure per property for the provision of water';
- Productivity analysis: SAW 'has relatively high productivity compared to most of the smaller firms and about average of the major utilities' examined and,
- Statistical analysis: SAW 'varies from about average performance to being in the top 25% of utilities'.

However efficiency in the delivery of services does not necessarily translate into the lowest priced product and this is particularly relevant with SAW¹¹. ESCOSA reported that SAW bills (combined water and sewerage charges) were the highest in Australia in 2012/2013.¹² CIE reports a higher return on assets¹³, compared to other utilities, is a driver of higher prices for SAW customers¹⁴. CIE's analysis highlights that many other utilities 'have regulated asset bases that are heavily discounted against the write down value¹⁵ of their assets'¹⁶. For SAW, their return on assets for the next regulatory period makes up for around 45% of its total allowable revenue¹⁷.

**SACOSS welcomes your comments regarding SAW's RBP and consumer issues.
Please provide your feedback to Bronwyn Colby, SACOSS Policy Officer
8305 4212 or email bronwyn@sacoss.org.au**

ⁱ The Centre for International Economics is an economic consultancy that provides independent, quantitative, evidence-based advice to government, private, non-government, and international clients. Previous clients include the Productivity Commission, Department of Infrastructure and Regional Development, the Office of the Chief Scientist and Department of Health. (<http://www.thecie.com.au/>).

⁸ CIE 2012, <http://www.escosa.sa.gov.au/library/121012-TopDownEfficiencyReviewSAWater-CIEReport.pdf>, p. 7.

⁹ Ibid.

¹⁰ Ibid, p. 8

¹¹ Ibid, p. 9.

¹² ESCOSA 2012, *Economic regulation of SA Water's Revenues Statement of Approach*,

<http://www.escosa.sa.gov.au/library/120713-EconomicRegulationOfSAWatersRevenue-StatementOfApproach.pdf>, p. 16.

¹³ A key profitability ratio which measures the amount of profit made by a company per dollar of its assets.

http://www.readyratios.com/reference/profitability/return_on_assets.html

¹⁴ CIE 2012, <http://www.escosa.sa.gov.au/library/121012-TopDownEfficiencyReviewSAWater-CIEReport.pdf>, p. 9.

¹⁵ The value of an asset after accounting for depreciation <http://www.investopedia.com/terms/w/writtendownvalue.asp>.

¹⁶ CIE 2012, <http://www.escosa.sa.gov.au/library/121012-TopDownEfficiencyReviewSAWater-CIEReport.pdf>, p. 9.

¹⁷ SA Water 2015, http://www.sawater.com.au/data/assets/pdf_file/0020/26921/RBP-2016.pdf, p. 14.