SACOSS
South Australian Council of Social Service

SACOSS' Submission to the Essential Services Commission of South Australia on SA Water's 2024-2028 Regulatory Business Proposal

4 October 2023

SACOSS' Submission to the Essential Services Commission of South Australia on SA Water's 2024-2028 Regulatory Business Proposal

First published in October 2023 by the South Australian Council of Social Service

47 King William Road

Unley, SA, 5061 Australia

Ph (08) 8305 4222

Fax (08) 8272 9500

Email: sacoss@sacoss.org.au

Website: www.sacoss.org.au

Contents

Executive Summary....4
Introduction....5
Overview of the RD 2024-28 Regulatory Business Plan....6
Cost impact of section 6 Ministerial Directions....7
Tea Tree Gully Community Wastewater Management Scheme (CWMS)....11
Metropolitan north subsystem growth....13
SA Water's prioritisation processes for expenditure proposals....16
Initiatives not progressed....16
SA Water's approach to cost estimation....20
Capital Expenditure....22
Operating expenditure....24
Commentary on the customer engagement process generally....26

Executive Summary

Overall, SA Water's *2024-28 Regulatory Business Plan*[1] (RBP24) presents a relatively balanced trade-off between investment needs, SA Water's current price pressures and the cost of living crisis.

SA Water's RBP24 comes in the context of a formal request from the State Government to reduce the operating revenue it is seeking through the 2024 -28 Regulatory Determination period, to address rising cost of living pressures.

SACOSS is supportive of the position adopted by both SA Water and the State Government to prioritise affordability. However, we question whether the stated aim to keep costs down is distorted by the expected Directions to be issued by the Minister for Environment and Water under section 6 of the *Public Corporations Act 1993*[2] (the Ministerial Directions). At a working total of $677.1 million, these Directions account for approximately 22.6 per cent of SA Water's total proposed capital expenditure across the 2024 – 28 period.

As a result of these significant expenditures directed by the Minister, other discretionary initiatives that were subject to lengthy consumer engagement and had consumer support, have not been progressed. Arguably, some of the affordability constraints driving the reduction in operating revenue sought by SA Water in RBP24 have been created by virtue of the expected Ministerial Directions.

SACOSS encourages the Essential Services Commission of South Australia (ESCOSA) to exercise its information gathering powers to scrutinise whether the expenditure and investments proposed in the expected Ministerial Directions are prudent, represent efficient costs, and are in the long-term interests of consumers. Water is an essential service and water costs are regressive, meaning low income households pay a greater proportion of their income on water as compared to average income households.[3] It is therefore vital to ensure that expenditure proposed in RBP24, including expenditure directed by the Minister (to be recovered from all South Australian water consumers over 2024-28), is no more than is necessary for the safe and reliable delivery of water network services. We also support both SA Water and the State Government revisiting these expected Directions to ensure that risk is not unfairly allocated to consumers, and to consider whether projects should more properly be funded through progressive (tax revenue) rather than regressive (water bills) means, to support a more equitable cost distribution.

[1] SA Water, 2024-28 Regulatory Business Plan

[2] *Public Corporations Act 1993*, Section 6

[3] SACOSS, Utilities Cost of Living Policies, p. 2

Introduction

The South Australian Council of Social Service (SACOSS) is the peak representative body for non-government, non-for-profit health and community services in South Australia, and has a vision of *Justice, Opportunity and Shared Wealth for all South Australians*. SACOSS does not accept poverty, inequity or injustice. Our mission is to be a powerful and representative voice that leads and supports our community to take actions that achieve our vision, and to hold to account governments, business, and communities for actions that disadvantage South Australians.

SACOSS' purpose is to influence public policy in a way that promotes fair and just access to the goods and services required to live a decent life. We undertake policy and advocacy work in areas that specifically affect low-income consumers in South Australia experiencing disadvantage. With a strong history of community advocacy, SACOSS and its members aim to improve the quality of life for people disadvantaged by the inequities in our society.

SACOSS has a long-standing interest in the delivery of essential services. Our research shows that the cost of basic necessities like water and electricity impact greatly and disproportionately on people on low incomes and experiencing disadvantage.

SACOSS would like to thank the Essential Services Commission of South Australia (ESCOSA) for the opportunity to comment on SA Water's Regulatory Business Proposal (RBP24), that sets out its proposed customer service standards, revenues and indicative prices for drinking water and sewerage services for 2024 - 2028.

This submission comments on:

- the cost impact of section 6 Ministerial Directions on affordability and the viability of other proposed initiatives
- initiatives not progressed in the RBP24
- SA Water's approach to cost estimation
- proposed capital spending projects
- proposed operating expenditure, and
- the customer engagement process to date, and improvements from the 2020-24 Regulatory Determination process (RD20).

Overview of the RD 2024-28 Regulatory Business Plan

In RBP24, SA Water proposes to spend a total of $2.828 billion over 4 years, including on average for each year of the regulatory period:

- $462 million in water services
- $245 million in wastewater services
- $596 operating expenses

It is estimated that this will result in in 3.5 per cent increase in bills (excluding inflation) for the average residential customer, or approximately $10.20 per quarter (excluding inflation) or $17.80 if inflation is assumed to be 2.5 per cent in 2024-25, as summarised below.

	RD24 period				Change since the start of economic regulation to 2024-25*
Real terms (excluding inflation)	2024-25	2025-26	2026-27	2027-28	
Combined bill average increase (for metropolitan residential customers)	3.5%	3.5%	3.5%	3.5%	-
Water price	2.2%	2.2%	2.2%	2.2%	-31.1%
Sewerage price	5.8%	5.8%	5.8%	5.8%	-25.9%

*Based on actual inflation for 2013-14 to 2023-24 (March to March, ABS, CPI: All groups - weighted average eight capital cities, 6401.0).

Figure 1: SA Water proposed change in prices for the 2024 – 2028 Regulatory Period in real terms (excluding inflation)

	RD24 period				Change since the start of economic regulation to 2024-25*
Nominal terms (including inflation)	2024-25	2025-26	2026-27	2027-28	
Inflation assumption	2.5%	2.5%	2.5%	2.5%	35.9%
Combined bill average increase (for metropolitan residential customers)	6.1%	6.1%	6.1%	6.1%	
Water price**	4.7%	4.7%	4.7%	4.7%	-6.4%
Sewerage price**	8.4%	8.4%	8.4%	8.4%	0.7%

*Based on actual inflation for 2013-14 to 2023-24 (March to March, ABS, CPI: All groups - weighted average eight capital cities, 6401.0).

** Based on forecast CPI assumption of 2.5%. Actual impacts may vary with actual CPI.

Figure 2: SA Water proposed change in prices for the 2024 – 2028 Regulatory Period in nominal terms (including inflation)

SA Water's RBP24 is significantly influenced by a formal request from the State Government to reduce proposed operating revenue for the 2024-28 Regulatory Period, in order to reflect the rising cost of living pressures facing South Australian households.[4] As a direct result of this request, RBP24 proposes reductions in operating security investments, expenditure on metropolitan service contracts and recovery of electricity expenditure, totalling approximately $35 million per year.

SA Water indicated it has modified its approach to prioritising investments having regard to affordability considerations, due to the cumulative impact of cost of living pressures in South Australia: [5]

> "While many respondents reported that water bills were not their largest bill, the cumulative impact of increasing power bills and the rising cost of living was putting pressure on all customers. Consumer and frontline community organisations expressed concern about the affordability of water services for vulnerable customers. The cost impact of RD24 investments needs to be carefully considered."

This theme flowed through to investment decisions around discretionary expenditure, which were deprioritised following discussions with the Customer Challenge Group (CCG) and the Peak Bodies Engagement Forum (PBEF): [6]

> "This submission seeks to balance managing customer affordability with efficiently delivering the services they rightly value and expect. […] To continue to meet core deliverable requirements while managing affordability, many initiatives that were supported through engagement, including willingness to pay studies, have not made the final submission. This decision followed discussion with the CCG and PBEF who advised SA Water to prioritise meeting obligations and delivering core services rather than progressing discretionary initiatives at this time."

SACOSS is supportive of the position adopted by both SA Water and the State Government to prioritise affordability, however, we question whether the stated aim to keep costs down is distorted by the expected section 6 Ministerial Directions. This will be discussed further below.

Cost impact of section 6 Ministerial Directions

SA Water notes in its RBP24 that,

> "It has been the convention through successive regulatory periods for the Treasurer to issue a pricing order that requires ESCOSA to deem initiatives and associated expenses subject to a section 6 direction as recoverable from regulated revenue. For example, the section 6 direction gazetted on 11 June 2020 prior to ESCOSA releasing

[4] SA Water (2023) 2024-28 Regulatory Business Plan, p. 7 - 9

[5] SA Water (2023) 2024-28 Regulatory Business Plan, p. 30

[6] SA Water (2023) 2024-28 Regulatory Business Plan, p. 7

its final 2020 determination required ESCOSA to incorporate the cost of moving areas of Tea Tree Gully onto the SA Water wastewater system into the revenue cap.

At the time of writing, SA Water has not received any additional section 6 directions that may impact RD24 revenue requirements. However, it has been advised that it will receive directions under the *Public Corporations Act 1993* for the delivery of services to Tea Tree Gully customers and for northern metropolitan growth."[7]

While SACOSS is strongly supportive of both SA Water's and the State Government's prioritisation of cost of living and affordability, we note that the two initiatives flagged under expected direction total $677.1m over the RD24 period, as per below:

Table 1: Expected Section 6 Ministerial Directions for RD 2024-28

Section 6 Ministerial Directions	**Capital expenditure ($m, real 2022-23)**	**Operating expenditure ($m, real 2022-23)**	**Total Expenditure**
City of Tea Tree Gully sustainable sewers program	284	27.9	311.9
Metropolitan north subsystem growth	364.8	0.4	365.2
Total	**648.8**	**28.3**	**677.1**

At an average cost of $169.3m per annum, the two directed expenditures erode the operating efficiencies of $35m per annum achieved via the State Government's formal request. The expenditures to be Directed by the Minister collectively account for 22.6 per cent of the total proposed capital expenditure for the 2024-28 Regulatory Determination period.[8]

It is worth noting that in the last SA Water regulatory period (2020 – 24), the total value of section 6 Ministerial Directions for capital expenditure projects was $258.6 million (adjusted to 2022-23 dollars), including $68.3 million for SA Water to acquire the assets of the Tea Tree Gully community wastewater scheme (see Table 2 below). The proposed Ministerial Directions for 2024-28 represent a 161 per cent increase in the directed expenditure compared to the last regulatory period.

Table 2: Section 6 Ministerial Directions for RD 2020-24, adjusted to $2022-23

Section 6 Ministerial Directions ($m, 2022-23)	**Capital Expenditure**	**Operating Expenditure**	**Total Expenditure**
Drinking Water			

[7] SA Water (2023) 2024-28 Regulatory Business Plan, p. 15-16

[8] SACOSS calculation based on table 8.12 of the RBP

Water Planning and Management Charges Contribution		50.9	50.9
Annual reimbursement of fees paid for valuation roll		3.1	3.1
Flushing of Torrens Lake		2.3	2.3
Improving the security and water supply on Kangaroo Island (net of Government contributions)	30.7	2.6	33.3
Upgrading the water supply of SA Water customers in regional areas	42.8	5.5	48.3
Aboriginal Communities serviced by SA Water (net of Government contribution)		8.4	8.4
Continue to meet community and owner expectations on water reticulation main performance	42.3	1.8	44.1
Sewerage			
Tea Tree Gully Community wastewater management scheme	67.3	1.0	68.3
Total	**183.0**	**75.6**	**258.6**

Importantly, the Ministerial Directions for the 2016-20 regulatory period did not contain any directed expenditure for capital infrastructure projects, or associated operating costs. ESCOSA's Framework and Approach for RD16 sets out the Directions for this period,[9] which included directing SA Water to recover the costs of the following services, facilities and contributions:

- Emergency Management Services
- Government Radio Network Services
- Save the River Murray Levy Administration Services
- Fluoridation Services
- Purchase of renewable energy or carbon offsets for the Adelaide Desalination Plant
- State-wide pricing facility
- Annual reimbursement of fees paid for valuation roll.

The progression of increasing costs (particularly for large infrastructure projects) to be recovered from South Australia water consumers pursuant to Ministerial Directions is extremely worrying. SACOSS has repeatedly raised concerns around the increased use of Ministerial Directions, coupled with the practice of Treasurer's Pricing Orders requiring ESCOSA to include these expenditures in the revenue determination. We suggest that this practice compromises the integrity and independence of the regulatory process:[10]

[9] ESCOSA, Framework and Approach for Regulatory Determination 2016, p.47

[10] SACOSS (2021) SACOSS Submission to the Productivity Commission's National Water Reform Draft Report, p. 8;

> "The Treasurer's Pricing Orders therefore operate to ensure capital expenditures on infrastructure projects SA Water is directed by the Minister to undertake under section 6 of the *Public Corporations Act 1993*, are not subject to the independent scrutiny or consumer input of other expenditure proposals in the regulatory process. The costs of complying with these Directions are simply mandatory, and have to be recovered in full from SA Water customers."

SACOSS understands the proposed infrastructure projects directed to be undertaken by the Minister will not undergo transparent cost-benefit analysis by ESCOSA, as expected by the *National Water Initiative Pricing Principles* (NWI Pricing Principles).[11] The importance of independent economic regulation was referenced in the Productivity Commission's 2017 *Inquiry into National Water Reform,* where the Commission stated:[12]

> *'Independent economic regulation has been key to cost-reflective pricing. The NWI requires that independent economic regulators have a role in the review or setting of prices for water services.* ***Independent economic regulation encourages efficient service delivery by applying rigorous scrutiny to operational and investment decisions. It facilitates consistent and improved planning, increases the transparency of decision making and reduces the risk of political interference in price-setting processes****.'*

The Commission went on to say that:[13]

> *'Independent supervision or regulation of prices is crucial to efficient service delivery. Independent regulatory processes scrutinise the prudence and efficiency of expenditure, supporting better operational and investment decisions. This is partly achieved by requiring utility businesses to produce sound proposals in support of expenditure that demonstrate that operational expenditure is efficient and investments maximise net benefits.* ***Economic regulation also supports the separation of service delivery and government policy-making by ensuring that pricing processes are transparent and undertaken in accordance with the long-term interests of consumers*** *(encompassing both cost and quality considerations****), rather than being driven by, for example, a short-term desire to extract dividends or keep prices low for consumers****.'*

---

[11] National Water Initiative Pricing Principles It is worth noting that 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 table in parliament' (introductory para 10). It is unclear whether the Treasurer will table reasons for a departure from the NWI Pricing Principles in relation to Ministerial Directions made by the Minister for Environment and Water under section 6 of the *Public Corporations Act* 1993.

[12] Productivity Commission, *National Water Reform*, Report no. 87, Canberra, p. 60-61 See:

[13] Productivity Commission, *National Water Reform*, Report no. 87, Canberra, p.210

Broadly speaking, SACOSS is strongly supportive of both SA Water and the State Government giving advanced notice of expected Ministerial Directions in RBP24. As noted in our response to the Framework and Approach, clear and early communication of government policy and regulatory settings is crucial to the regulatory compact between governments, utilities and customers.[14] We note the previous Ministerial Directions for the 2020-24 regulatory period were issued on 28 May 2020, only two weeks before the publication of ESCOSA's Final Determination on 11 June 2020. In the interests of transparency and accountability, we are seeking any additional section 6 Ministerial Directions be issued as early as possible, so consumers and stakeholders can understand the cost impacts and implications.

To be clear, SACOSS is not passing judgement on the merit (or otherwise) of the directed expenditures. Our concern is around whether the practice of funding the costs of Ministerial Directions through Regulatory Determinations restricts ESCOSA's ability to properly scrutinise expenditures for prudency and efficiency, undermining ESCOSA's primary objective of protecting the long-term interests of South Australian consumers with respect to price, quality and reliability of essential services.[15]

It is worth noting that ESCOSA has cautioned against this practice in the past, previously stating:

> "the costs of meeting any Ministerial Directions should be transparently determined, and funded by direct, transparent community service obligation payments, and not by water consumers."[16]

With respect to the expected Ministerial Directions flagged in RBP24, SACOSS is deeply concerned by the magnitude of the expenditures, and the impact on other discretionary initiatives supported through consumer engagement. This is discussed further in the 'SA Water's prioritisation processes for expenditure proposals' section. Further comments are provided on the specific initiatives, below.

Tea Tree Gully Community Wastewater Management Scheme (CWMS)

We note the government's election commitment to transfer all residents on the Tea Tree Gully (TTG) Community Wastewater Management Scheme (CWMS) to SA Water sewerage customers, at "no cost to the you [the residents]".[17] By virtue of directing this expenditure, Tea Tree Gully customers, and indeed all SA Water customers, will expressly be paying to connect to the SA Water sewerage network through their water bills. Further, these costs

[14] SACOSS (2021) SACOSS' Submission to the Essential Services Commission of South Australia on SA Water Regulatory Determination 2024: Framework and Approach, p. 5-6

[15] Section 6(a) of the *Essential Services Commission Act 2002*

[16] ESCOSA (2013) SA Water's Water and Sewerage Revenues 2013/14 – 2015/16 Final Determination, Statement of Reasons, p. 127-128

[17] SA Labor (2022) Taking Control of the CWMS

will be recovered regressively, at a disadvantage to low-income consumers, rather than transparently via a CSO or directly funded by government.

SACOSS also notes that there is no commitment around the timeline for the transfer being completed, with SA Water suggesting that:

> "Progress to transition customers during the current regulatory period has been impacted by cost escalations and a requirement to manage on-property works (including connections to the existing sanitary drainage system and property reinstatement) as part of the upgrade. This expanded scope means that funds beyond those approved as part of the RD20 direction are required for this project to continue.
>
> It has been confirmed that SA Water will receive a direction pursuant the *Public Corporations Act 1993* to undertake this activity.
>
> During RD24, SA Water requires $284.0 million of capital expenditure and $27.9 million of operating expenditure to continue works that will convert properties to SA Water's sewer standard, operate the new sewer system and to decommission the existing CWMS network, ***with this activity projected to be completed in the early part of RD28***."[18]

SA Water also notes that there are incremental costs related to operating the CWMS (ongoing operation and maintenance) which will require an additional $2.8 million per year to the 2021-22 base year cost, totalling $11.1m over the RD24 period.[19] The fact that a section 6 Ministerial Direction (from RD20) has led to an opex step change illustrates our point about the consequential impacts of unscrutinised expenditures, long-term impact on the regulatory asset base, and ultimately costs for consumers.

Unfortunately, the current Monitoring and Evaluating Performance Framework does not require SA Water to report on allowed vs actual expenditure for initiatives under Ministerial Direction. This information would be useful for stakeholders to analyse whether these costs were prudent and efficient. In any case, SACOSS estimates that the total costs related to the TTG CWMS amounts to approximately $391.3 million to 2028. With around 4,700 wastewater customers added to the SA Water network**, this equates to approximately $83,255 per connection**.

Given the significant size of the proposed expenditure and the regressive nature of cost recovery through household water bills, SACOSS is seeking assurances from ESCOSA that the figures have been tested for prudency and efficiency. If this is not possible under the regulatory framework, then in the interests of transparency, SACOSS is seeking SA Water be required to separately identify costs recovered from consumers to meet Ministerial

[18] SA Water (2023) 2024-28 Regulatory Business Plan, p. 192

[19] SA Water (2023) 2024-28 Regulatory Business Plan, p. 253 - 254

Directions on customer's bills, so South Australian households are aware these costs are over and above the efficient costs allowed by the Regulator to deliver safe and reliable water services.

Ensuring there is adequate reporting, monitoring and evaluation of costs related to external obligations such as Ministerial Directions will also be key to ensuring transparency and accountability.

To summarise, SACOSS is seeking clarification on:

- Whether the expected section 6 Ministerial Directions limit ESCOSA's independent regulatory process of scrutinising the prudency and efficiency of expenditure, to support better operational and investment decisions in the long-term interests of consumers.
- Whether the Tea Tree Gully sustainable sewers program was quarantined from consumer engagement (it was not discussed with PBEF, but may have been at the CCG level).
- The ability for SA Water to stage the works over multiple regulatory periods, noting current cost escalations.
- The impact of expenditure directed by the Minister on SA Water's Regulatory Asset Base, and projected long-term costs to consumers in future regulatory periods.
- ESCOSA's view on transparently identifying costs to meet Ministerial Directions separately on consumers' water bills.

Metropolitan north subsystem growth

In its RBP24, SA Water refers to an investment strategy relating to the expected growth within the metropolitan north supply zone, representing "out-of-cycle capital investment to maintain services to existing customers while also meeting new growth in this area."[20] SA Water suggest that this investment strategy has been developed to meet an expected Ministerial Direction, requiring capital expenditure of $364.8 million and operating expenditure of $0.4 million.

Unlike the TTG CWMS proposal, SACOSS were consulted on SA Water's water and wastewater growth needs as part of the PBEF. However, it is unclear the extent to which those proposals relate to the 'metropolitan north subsystem growth' proposal and which areas are included. The consultation slides suggest that the areas of Buckland Park, Angle Vale, Two Wells, Virginia and Gawler are 'key investment areas' for water in the greater metropolitan north area.

SA Water points to data illustrating that the average annual growth in the north metro supply zone has grown by 1.37 per cent, compared to 0.84 per cent for the rest of SA.[21]

[20] SA Water (2023) 2024-28 Regulatory Business Plan, p. 197

[21] SA Water (2023) 2024-28 Regulatory Business Plan, p. 197

The proposed solutions to maintain levels of service for current customers and support projected ongoing growth of new customers, include:

- duplication of approximately 37 kilometres of water mains
- installation of approximately 12 kilometres of new water mains
- replacement of approximately 23 kilometres of water mains
- new tanks
- 2 new pump stations
- upgrade of 2 pump stations
- new hydraulically operated control valves at 3 tank sites

In the slides presented as part of the engagement process, SA Water flagged that "In RD24 we are proposing to seek $20m each for Water and Wastewater growth projects to prevent reprioritisation of essential projects to accommodate growth".[22] At no point in the engagement was a total investment cost put to the PBEF, nor any detail around how costs would be broken down. We are unclear how the $20m each for water and wastewater growth projects has evolved into a total cost of $365.2 million, nor is it clear why this expenditure should be directed by the Minister.

We note that other regions flagged as 'key investment areas' during engagement included the Greater Metro South and Fleurieu (Aldinga, Sellicks Beach, Victor Harbour, Goolwa) and Regional (Freeling, Barossa Valley, Murray Bridge/Monarto, Wirrina Cove). We reiterate our view above that ESCOSA should be scrutinising these costs for prudency and efficiency due to the size of the expenditure and lack of detail in the RBP.

The discussion question put to PBEF during engagement was around SA Water's current planning strategy for growth to assess system capacity and provide suitable improvements at the lowest lifecycle cost. PBEF were probed on how SA Water should determine growth investment, specifically whether investment should be made early to support known future growth (i.e. front-loading capital investment). SACOSS notes that discussion from PBEF members[23] included comments and questions around:

- Whether there is confidence in the $20 million figure proposed for both water and wastewater growth projects.
- What about opex costs for ongoing maintenance to the new unplanned water and wastewater growth infrastructure? What is the level of confidence in this?
- How does SA Water balance investment and resulting benefit to agree on where it sits on the spectrum between minimum standard and the highest benchmark?
- Needing more understanding of the impact on customers to comment on the proposed approach.

[22] SA Water (2022) Growth and Development: Water and Wastewater, Peak Bodies Engagement Forum, 4 October 2022 presentation slides

[23] SA Water (2022) Peak Bodies Engagement Forum October Meeting Summary

- The desire for more information on different investment scenarios (e.g. now versus delayed) to help better understand the cost profile.
- The need to build capacity into system to enable flexibility and reduce risk.

In its RBP commentary around the metropolitan north subsystem growth initiative, SA Water notes that:

> "*SA Water's Customer Challenge Group recognised the need for investment but expected that new customers in developments and also developers would pay for the benefits they received from the investment. Feedback from the Peak Bodies Engagement Forum for this initiative was supportive amongst members from the development industry, but less strong from environmental representatives*."[24]

SACOSS suggests that the discussion at the PBEF around water and wastewater growth was a bit more nuanced than has been articulated by SA Water in its RBP. Notwithstanding, we question whether PBEF members understood the substantive nature of the initiative being discussed - $365.2 million is a much higher order of magnitude than "$20m each for water and wastewater growth projects". We suspect that responses may have been different if presented with the higher total figure at the outset.

As noted above, SACOSS is deeply concerned that including this proposal as an expected Ministerial Direction may preclude it from being appropriately scrutinised by ESCOSA for prudency and efficiency. We encourage ESCOSA to consider what the risks are to consumers if costs for this initiative were to escalate, and for SA Water and the Minister to consider a revised proposal, as necessary.

To summarise, SACOSS is seeking clarification on:

- Whether the 'Metropolitan north subsystem growth' investment proposal represents the 'Water mandated growth' business case tested in the engagement stages.
- If the CCG or ESCOSA were given more detailed information regarding the business case underlying the $365.2 million investment proposal.

Recommendations

- SACOSS welcomes the SA Government and SA Water continue to give advanced warning of any further expected directions with a material impact on costs to consumers as early as possible.
- SACOSS encourages ESCOSA to exercise its information gathering powers to scrutinise whether the investments represent efficient costs, and are in the long-term interests of consumers.

[24] SA Water (2023) 2024-28 Regulatory Business Plan, p. 198

SA Water's prioritisation processes for expenditure proposals

SA Water's process for prioritising possible expenditure initiatives is detailed in section 7.7.2 of the RBP.

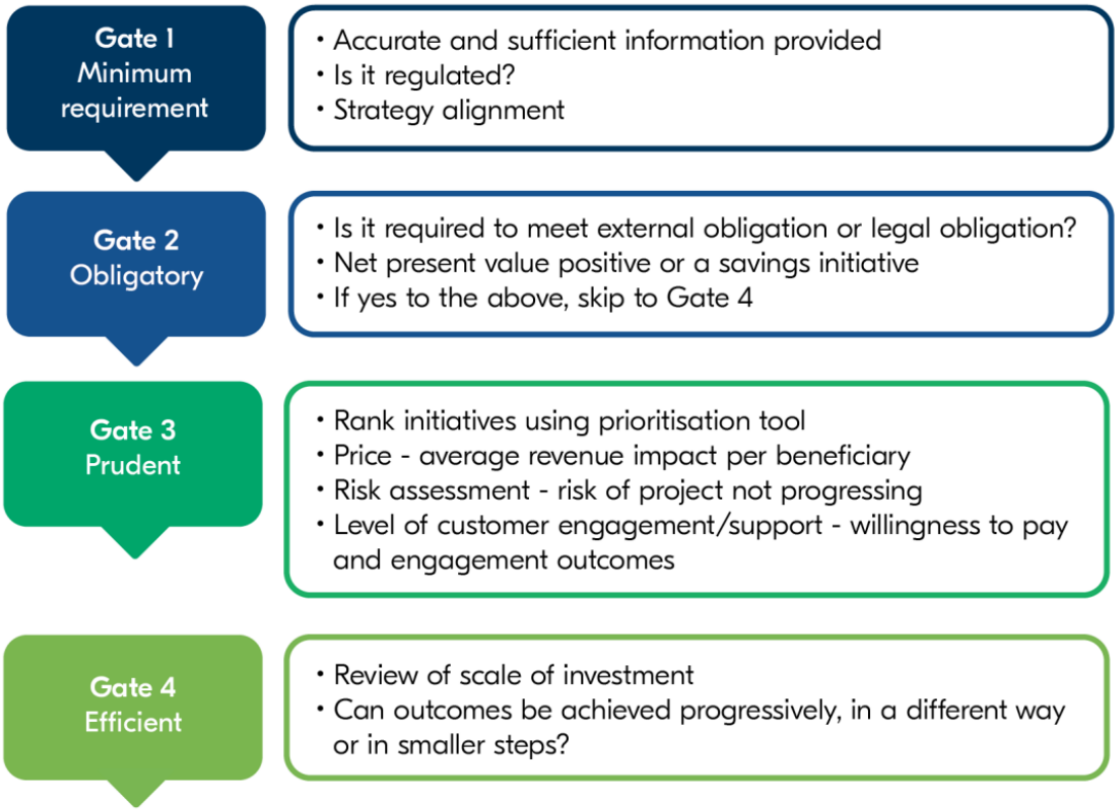

Figure 7-12 Gates for prioritising investment expenditure

Figure 3: Prioritising investment expenditure. Source: SA Water, RBP24[25]

SACOSS observes that SA Water have been clear and consistent in articulating its prioritisation approach throughout the engagement process. However, the formal request from State Government to reduce operating revenue, coupled with the expected section 6 Ministerial Directions detailed above, has meant that a number of initiatives tested during the engagement phase have not progressed into SA Water's RBP24. These are discussed in more detail below.

Initiatives not progressed

The prevailing narrative in SA Water's RBP24 is that it presents an investment plan that focuses on maintaining existing services and meeting its legal obligations, in the interests of affordability.[26] This was reinforced by the CCG, when asked to rate drivers for investment as per below.[27]

[25] SA Water, 2024-28 Regulatory Business Plan, p. 146

[26] SA Water (2023) 2024-28 Regulatory Business Plan, p. 160

[27] SA Water (2023) 2024-28 Regulatory Business Plan, p. 155

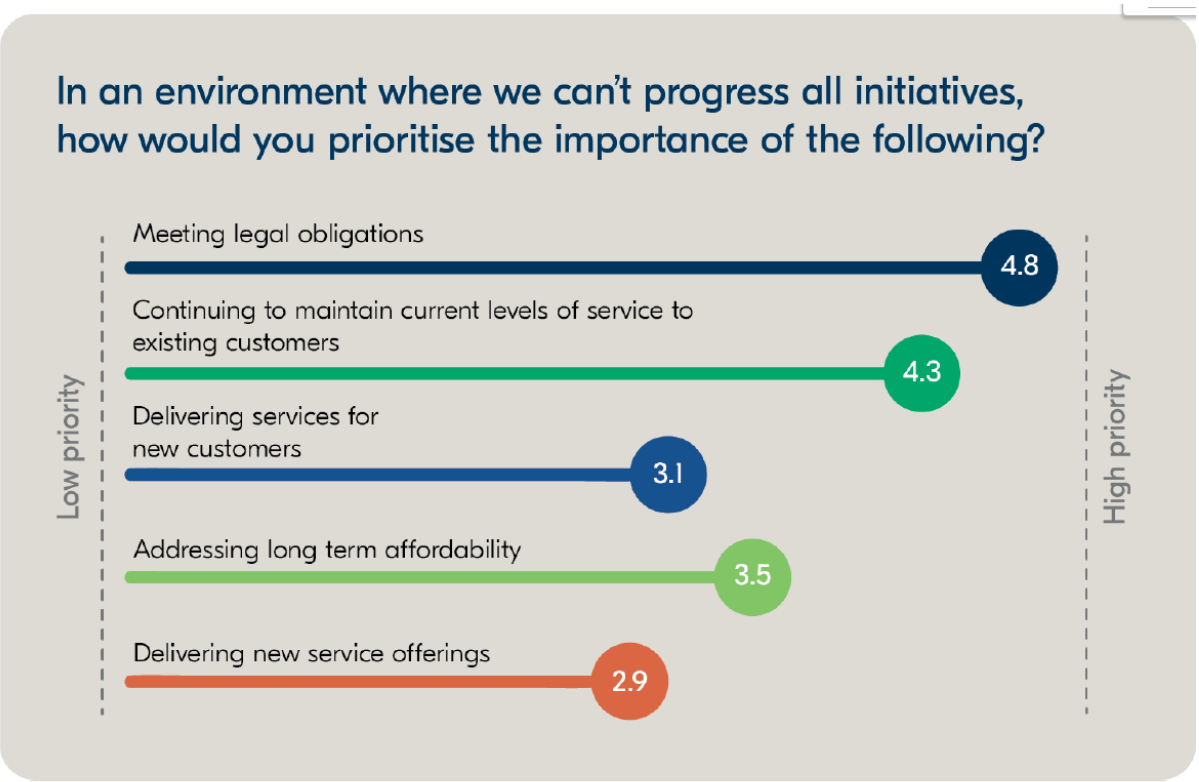

Figure 9-17 CCG feedback of investment priority

Figure 4: CCG Feedback of investment priority. Source: SA Water, RBP24[28]

SACOSS notes that equity has not been included as a driver for prioritising investment, considering that SA Water began with "providing ***equitable and*** affordable services" as one of its five key foundational themes for its engagement process.[29]

The three proposals tested in the willingness to pay study grouped under the "providing equitable and affordable services" service level outcome were:

- Billing information for renters.
- Accessible customer services.
- Supporting customers with high water use for medical needs.

SACOSS is concerned that improved equity was not considered further, particularly given it seems to have been a consideration in the CCG's deliberation of initiatives which did not progress as evidenced by the following comments: [30]

- **Non-drinking water system upgrades:** "Discussion was wide ranging and comprehensive as members weighed up equity for all people to have access to

[28] SA Water (2023) 2024-28 Regulatory Business Plan, p. 148

[29] SA Water (2023) 2024-28 Regulatory Business Plan, p. 90

[30] SA Water (2023) 2024-28 Regulatory Business Plan, table 8-1, p. 156 - 160

quality water, with the costs of supplying water for the benefit of a small number of customers which would be borne by the wider customer base.

Seven of the 9 members were supportive of some level of investment due to the importance of providing equity of water access, while 2 members did not support any investment due to the high costs involved and the viability of the towns."[31]

- **Regional water quality aesthetics:** "Views were evenly split among members. Several members recognised the large cost associated with this initiative per beneficiary, suggesting it was inequitable for the broader customer base to fund this initiative. Other members considered community members should expect a higher quality of water."[32]

SACOSS also notes that while cost impact by beneficiary and willingness to pay figures are referenced in the RBP for the initiatives not progressed, the broader initiative costs are not referenced. SACOSS considers that having sufficient detail on the considered breadth and cost of these initiatives (even though not progressed) is important in the context of:

- stakeholders better understanding what trade-offs are being proposed; and
- providing publicly available information on baseline / point-in-time costs for initiatives not proposed for inclusion in RD24 but may be considered in a future regulatory period.

The second point is particularly important in answering the question of, "if not now, when"?

SACOSS has provided commentary on selected initiatives not progressed below, including indicative initiative costs as presented during stages of engagement, noting that they may have since escalated.

Table 3: SACOSS comments on selected initiatives not progressed

Initiative	Indicative cost	SACOSS comments
Non-drinking water system upgrades: 9 x Regional non-drinking water system upgrades	Unclear as PBEF were not consulted on this initiative given it was under a RD20 section 6 direction, and SA Water suggested that "SA Water's	SACOSS notes that $37.7m was subject to a section 6 Ministerial direction for SA Water to upgrade 340 out of 650 properties in regional area with non-potable supplies. We understand that SA Water's intent at the time was to upgrade the remaining properties as part of RD24.[34] As highlighted in our submission to the RD20 RBP, we were concerned that this proposal offered a 'partial solution' to a broader complex issue of

[31] SA Water (2023) 2024-28 Regulatory Business Plan, p. 156

[32] SA Water (2023) 2024-28 Regulatory Business Plan, p. 156

[34] https://www.escosa.sa.gov.au/ArticleDocuments/21462/20200304-Water-SAWRD20-DraftDecision-StatementOfReasons.pdf.aspx?Embed=Y, p. 128

	regulated investment proposals for RD24 and matters outside of SA Water's control, such as government policy will be out of scope for PBEF discussions."[33]	water quality and supply in regional and remote South Australia. Not proceeding with the remaining upgrades has inadvertently created additional inequities. We reaffirm our position that a broader strategy around regional and remote water supply in South Australia is needed, considering those who are both within and outside of SA Water's network (e.g. Coober Pedy, Ceduna and self-supplied communities) and prioritising upgrades in an orderly and strategic manner, similar to how DEW have done risk assessments for self-supplied communities. We recommend that this methodology is applied to SA Water regional and remote supplies, with a long-term strategic plan progressed outside of the RD24 process.
Regional water quality aesthetics: Upgrading water quality in Quorn, Naracoorte, and Melrose region	The considered option during the engagement phase was to invest in a stand-alone desal plant at Quorn only for RD24 (~$51m) and staging other works over the next 3 regulatory periods	We note that although detailed options for regional water quality aesthetics were not reviewed / tested by PBEF, SA Water cites feedback from the CCG and PBEF in November 2022 that SA Water should prioritise meeting external obligations and delivering existing services where its proposed investment is constrained as a rationale for not proceeding with this initiative.[35] As noted in the sections above, the constraints are being artificially created by expectations to meet section 6 Ministerial Directions.
Tenant services: Providing tenants access to an online portal to see a copy of	$3.0m capex $0.36m opex	We note the concern around "the cost of the tenant services being recovered from all customers even though it would only benefit a small group of customers."[36] SACOSS suggests that 225,000 renters (over a quarter of all residential

[33] SA Water (2022) Peak Bodies Engagement Forum – Terms of Reference

[35] SA Water (2023) 2024-28 Regulatory Business Plan, p. 157

[36] SA Water (2023) 2024-28 Regulatory Business Plan, p. 158

their portion of the bill, plus access to a level of payment support		customers) does not constitutes a "small group" and at an estimated expenditure of $3.36m, a cost of $14.9 per beneficiary is relatively modest. A useful point of comparison is the investment to convert the 4,700 TTG wastewater customers at approximately $83,255 per connection, which is clearly a case of high cost per beneficiary being regressively recovered from all consumers. While we acknowledge that proposed amendments to *Residential Tenancies Act 1995* requiring landlords to provide a copy of the water bill with tenants, in practice compliance may be an issue due to inherent asymmetries in power between property owners and tenants. Our preferred resolution to this issue is for ESCOSA to align the definition of 'customer', 'consumer' and 'residential customer' under the *Water Industry Act 2012* so that tenants can be covered by the same consumer protections afforded to all customers.[37] It is noteworthy that in its RBP, SA Water "recognises that its customers comprise not only those who own property, but also those who pay bills and consume services".[38]
Smart meters trial: to support up to 200,000 customers with smart meters by 2028	$38.8m capex $1.78m opex	SACOSS supports SA Water's decision not to include this initiative in RD24 as the broader benefits to the customer base are yet to be substantiated. SACOSS believes that in the case of smart meters, the beneficiaries should pay, rather than costs being recovered from the entire customer base.

SA Water's approach to cost estimation

It is worth noting that in SA Water's approach to cost estimation, the target accuracy of projects at different stages of development (from project identification to scoping to development and delivery) ranges from '-30% to +50%' to '-5% to 5%' (see figure below)[39].

[37] SACOSS (2023) Submission to ESCOSA on the Water Retail Code and Monitoring and Evaluating Performance Framework

[38] SA Water (2023) 2024-28 Regulatory Business Plan, p. 158

[39] SA Water (2023) 2024-28 Regulatory Business Plan, p. 139-141

Even for a class 3 project, a -10% to 15% variance on a project costed at $365.2 million, has a range between -$36.2 million to + $54.9 million. SACOSS is concerned about these broad variances, and questions whether consumers can have confidence in SA Water's cost estimation approach.

Classification	Class 1	Class 2	Class 3	Class 4
Estimate type	Project identification	Project scoping	Project development	Project delivery
Intended use	Planning / budgeting	Feasibility or options analysis	Project business case / financial approval	Procurement
Target accuracy	-30% to +50%	-20% to +30%	-10% to +15%	-5% to +5%
Definition of scope	Statement of project brief	Options report or documentation	Concept design and documentation	Final documents
Indicative level of design	10%	20%	40%	80-100%
Basis of cost (major items)	Work breakdown structure Historical costs Benchmarked overheads Real SA Water overheads	Work breakdown structure Unit rates Benchmarked overheads Real SA Water overheads	Work/cost breakdown structure First principles Benchmarked overheads Real SA Water overheads	Cost breakdown structure Real overheads Real SA Water overheads

Figure 5: Cost estimation classes. Source: SA Water, RBP24[40]

As noted in SACOSS' submission to the RD20 RBP, the North Adelaide Irrigation Scheme, which was subject to government direction, resulted in a cost escalation of almost 33 per cent, due to delays in contracting irrigation customers. We observed that this:

> *"highlights the risks involved in Government directions. As the directing party, it would be appropriate for the State Government to bear the cost of any project cost overruns, by capping the contribution that goes into the regulated asset base at the cost of the existing approach."*[41]

In general, SACOSS observes that more work could be done to better educate consumers, advocates, and other stakeholders in understanding consumer risk preferences, including who carries the risk of benefits not being realised and project over/underspend (e.g. SA Water, government as owner, consumers, developers). We note that this is likely to become much more of a live issue for the next regulatory period, given that SA Water has placed

[40] SA Water, 2024-28 Regulatory Business Plan, p. 140

[41] SACOSS (2019) Submission to ESCOSA on SA Water's 2020-2024 Regulatory Business Proposal: 'Our Plan' 2020, p. 18

greater weight on immediate affordability for RD24 and signalling "greater capital investment in future periods".[42]

SACOSS is seeking clarification on:

- ESCOSA's view on the broad variance in cost estimation and the methodology underpinning SA Water's cost estimates for identified projects, given the broad target accuracy ranges.

Capital Expenditure

SA Water are proposing to invest $2.8 billion in capital expenditure ($1.85m allocated to water and $981.8m to wastewater), with $114.7 million in supporting operating expenditure. Investments are categorised by various drivers including sustain services, external obligations, enable growth and improve services, as summarised below.

Table 4: Summary of capital expenditure and associated operating expenditure by key driver, RD24

Key Driver	**Capex cost during 2024-28 ($m, real 2022-23)**	**Associated Opex cost during 2024-28 ($m, real 2022-23)**
Sustain services - water	$983.4	$51.8
Sustain services - wastewater	$236.7	$0.6
Sustain services – technology	$117.7	$6.3
External obligations - water	$205.3	$4.1
External obligations – wastewater	$492.0	$31.0
External obligations – technology	$54.1	$12.6
Enable growth - water	$444.2	$0.4
Enable growth - wastewater	$181.1	$7.8
Improve services	$161.6	$0.1
Total	**$2,876.1**	**$114.7**

The figure below compares the main regulatory driver for capital expenditure between the RD20 final determination and RBP24. SA Water notes the graph illustrates that the plan reflects "a greater proportion of expenditure to enable growth in networks predominantly at the expense of improving services".

[42] SA Water (2023) 2024-28 Regulatory Business Plan, p. 289

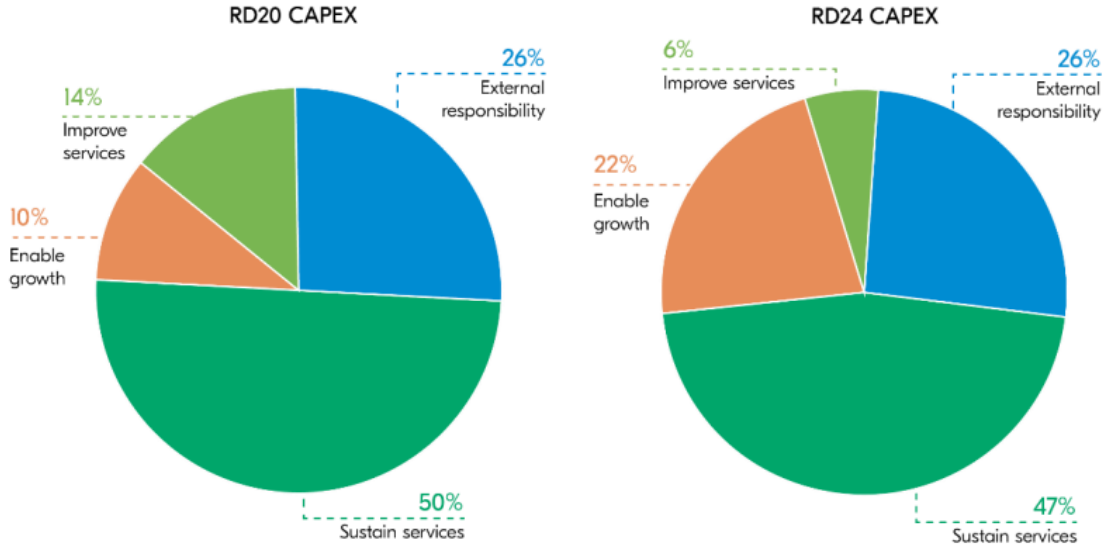

Figure 6: Comparison of capital expenditure by key driver, RD20 final determination vs RD24 regulatory submission[43]

SACOSS has the following questions around how expenditure has been categorised and whether capital expenditure is consistent with the proposed narrative:

- Why is the metro north subsystem growth project listed under "enable growth" capital expenditure category for water rather than under "external obligation", similar to how the TTG sustainable sewers program is listed under "external obligation" under the wastewater section. We suspect that this is because the TTG transfer was initially a section 6 direction under RD20, whereas the metro north growth is only an expected direction for RD24 at this stage. Nevertheless, SACOSS suggests this obscures the actual capex drivers for RD24, which should see a substantial growth in percentage of external obligations. This is pertinent to the prevailing narrative in the submission around stakeholders preferring to meet legal obligations and sustain initiatives over growth initiatives.
- Should the Purified Recycled Water demonstration plant be considered a "sustain service"?

Speaking broadly, SACOSS is calling for ESCOSA to closely examine all proposed capital expenditure in RBP24, to ensure it is properly categorised, that consumers are not paying twice for the same outcome, that opex / capex trade-offs are clearly identified, and that all expenditure is prudent and efficient, in the long-term interests of South Australian water consumers.

[43] SA Water (2023) 2024-28 Regulatory Business Plan, p. 205

Operating expenditure

On top of a normalised base year expenditure of $555.6 million, SA Water is proposing to spend an additional $162.4 million over 4 years in operating expenditure in RD24, seeking a total of $2,385.6m in operating expenditure for 2024-28, as outlined in the table below.[44]

Table 3: SA Water proposed Operating Expenditure 2024-28

Operating expenditure (Real, 2022-23 $m)	2024-25	2025-26	2026-27	2027-28	Total
Water	396.3	406.8	416.4	418.1	**1637.7**
Sewerage	186.4	188.8	185.9	186.8	**747.9**
Total	582.7	595.6	602.3	605.0	**2385.6**

The additional $162.4m is comprised of the following drivers:

Key driver ($m, $2022-23)	2024-25	2025-26	2026-27	2027-28	Total regulated operating expenditure
Asset investment operating cost					
External responsibility	$6.5	$8.9	$15.2	$17.1	$47.7
Sustain services	$3.9	$12.4	$20.9	$21.5	$58.6
Enable growth	$2.8	$4.0	$0.7	$0. 7	$8.2
Improve services	$0.0	$0.0	$0.0	$0.0	$0.1
Other operating costs					
External responsibility	$9.5	$10.2	$10.0	$9.8	$39.5
Sustain services	$1.6	$2.5	$1.8	$2.4	$8.3
Total after efficiency	**$24.3**	**$38.0**	**$48.6**	**$51.5**	**$162.4**

Figure 7: Key Drivers of Operating expenditure for 2024-28. Source: SA Water RBP 2024[45]

RBP24 is proposing to recover $434.4m more in operating expenditure over 2024-28, than was allowed by ESCOSA for the current period. ESCOSA's Final Decision on the amount of

[44] SA Water (2023) 2024-28 Regulatory Business Plan, p. 262

[45] SA Water, 2024-28 Regulatory Business Plan, p. 258

operating expenditure to be included in the calculation of SA Water's revenue cap for RD20 was $1,951.2m, comprising:[46]

- $1,408 million ($Dec18) for drinking water retail services, which is one percent lower than that spent in SAW RD16 and four percent lower than that proposed by SA Water in its RBP, and
- $543 million ($Dec18) for sewerage retail services, which is four percent more than that spent in SAW RD16 and five percent lower than that proposed by SA Water in its RBP.

The Figure below shows that in expenditure terms, the biggest changes from RD20 are the increases in sustain services, and the reduction in improve services expenditure:

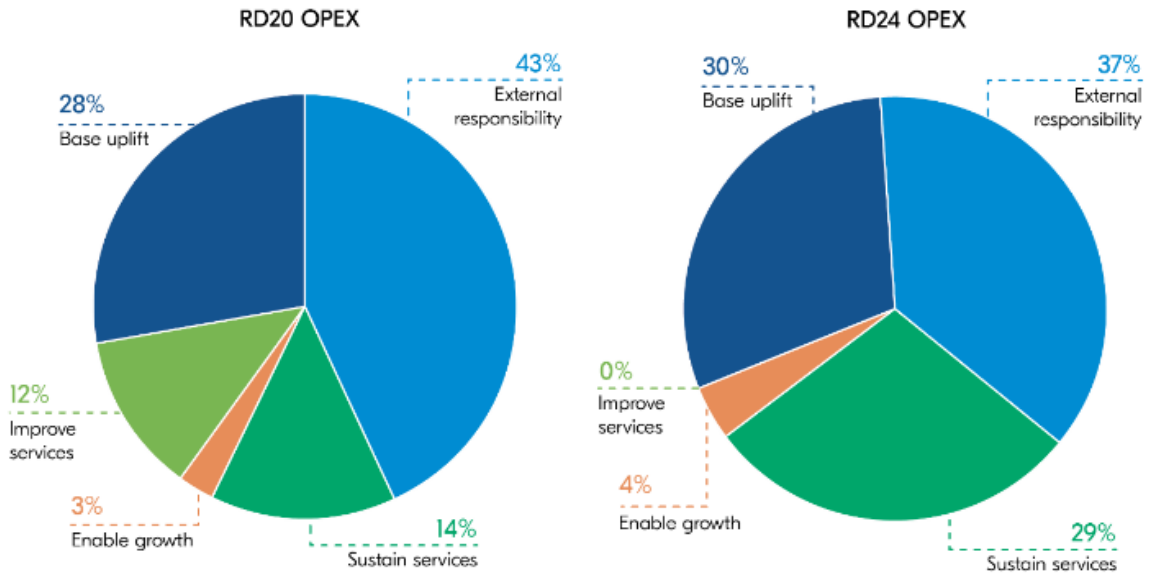

Figure 8: Operating Expenditure percentage by driver, RD20 vs RD24. Source: SA Water RBP 24[47]

SA Water's RBP24 outlines that, due to several factors, actual regulated operating expenditure over the current period, for both water and wastewater combined, was $29.2 million (5.8 per cent) above the RD2020-24 allowance.[48] Interestingly, ESCOSA's operating expenditure determination for RD20 showed actual operating expenditure for SA Water has increased by around 5% each year in real terms (above inflation), since 2015-16:

[46] ESCOSA, SA Water Regulatory Determination 2020, p.112

[47] SA Water, 2024-28 Regulatory Business Plan, p.258

[48] SA Water, 2024-28 Regulatory Business Plan, p.71

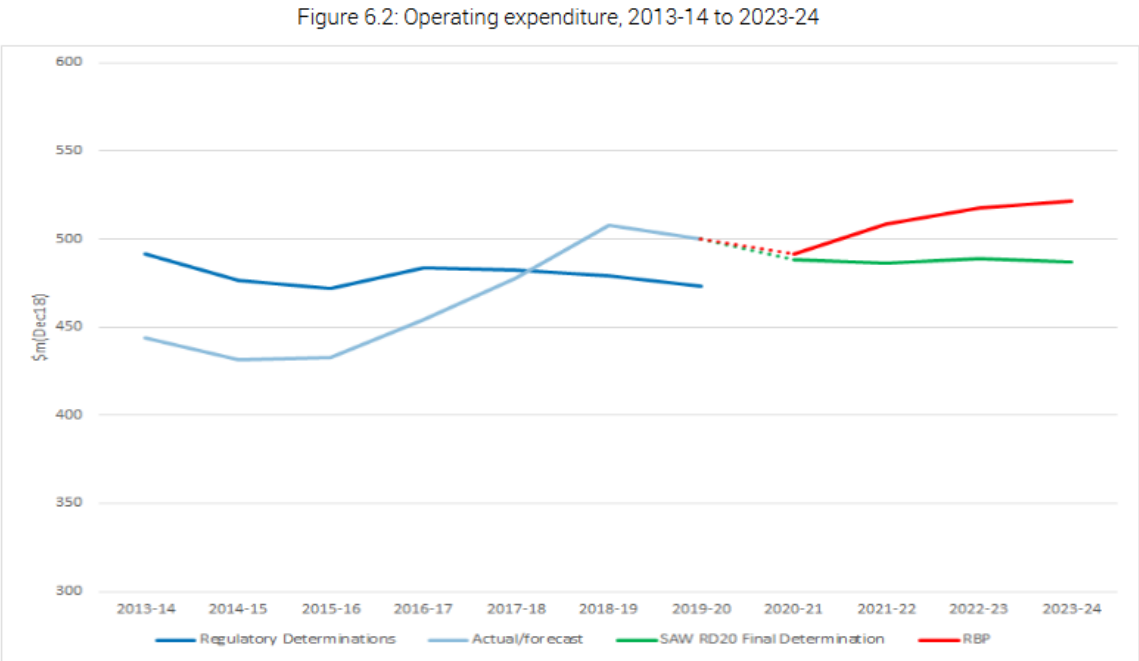

Figure 9: Operating Expenditure 2013-14 to 2023-24. Source: ESCOSA, 2020[49]

Given the proposed increases in the efficient base year, as well as forecast increases in operating expenditure proposed by SA Water in RBP24, SACOSS is seeking ESCOSA closely examine SA Water's proposed efficient base year of $555.6m to ensure actual operating expenditure from regulatory accounts and normalisation adjustments are properly taken into account.

SACOSS is also calling for ESCOSA to carefully examine whether SA Water has identified all possible operating expenditure savings and trade-offs across expenditure categories to ensure that customers pay no more than is necessary for the safe and reliable delivery of water services. ESCOSA must be satisfied that SA Water has provided sufficient evidence to support the need for the proposed operating expenditure step changes. This is particularly important in the context of current and future affordability concerns, as the proposed increased operating expenditure will be fully recovered from consumers in the 2024-28 period.

Commentary on the customer engagement process generally

SACOSS would like to commend SA Water for actively addressing concerns raised by ESCOSA and other stakeholders from the previous regulatory determination. This has been evident in the engagement to date and in the presentation of RBP24. The level of detail presented in RBP24 is a vast improvement from RBP20, with greater transparency around how SA Water has arrived at its investment decisions.

Notwithstanding the comments and clarifications sought in this submission, the greater level of detail has enabled an improved level of engagement with the material. In particular,

[49] ESCOSA, SA Water Regulatory Determination 2020, p. 120

we appreciate that the anticipated section 6 Ministerial Directions have been declared upfront and considered early on in the process.

We welcome continued engagement with SA Water, ESCOSA and other stakeholders through the remaining stages of the regulatory process.