

SUPPLEMENTARY INFORMATION TO THE SOUTH AUSTRALIAN GOVERNMENT SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY INTO AUSTRALIA'S URBAN WATER SECTOR

The following responds to a number of queries raised by the Productivity Commission at the public hearing held in Adelaide on 7 December 2010.

1. Under the new independent economic regulation framework, will ESCOSA's decisions be subject to review? What avenues are open for stakeholders to challenge any decision made by ESCOSA under the proposed Bill?

The *Water Industry Bill* contains a number of provisions under Part 9 that addresses review and appeal of decisions. Under section 87, review of decisions can be undertaken by either the ESCOSA or the Technical Regulator, depending on the issue an applicant feels warrants review. This is intended as the first avenue of pursuit and does not involve any additional arbitrators.

If the applicant is not satisfied with the outcomes of a decision as confirmed, amended or substituted by the Commission or the Technical Regulator, rights of appeal lie within the District Court. The District Court may then affirm the decision, or remit the matter for further consideration in accordance with any directions of the Court. The Court can make any consequential or ancillary order or direction, or impose any condition, the Court feels necessary on account of the appeal.

In addition, the Minister must establish a panel of experts who may sit as assessors with the District Court consisting of persons with knowledge of, or experience in, the water industry or in the fields of commerce or economics.

2. Does the Government have any publically stated position as to why we are developing new third party access arrangements, rather than just relying on the existing provisions of the Trade Practices Act?

Water for Good includes a number of statements in regard to the Government's objectives for third party access as follows:

(p1), "innovation in future augmentation options should be encouraged through... third party access regimes"

(p18) "the State's water infrastructure will be opened up to provide third-party access and new entrants in the general water industry will be able to offer a range of water products"

(p20) "The State's water infrastructure... will remain in State ownership but will have been opened up to provide third-party access and new entrants in the general water industry will be offering a range of fit-for-purpose water products"

(p140) "Allowing new entrants access to existing monopoly infrastructure is a necessary step to encourage the entry of new, innovative and diverse supply sources, including non-rain-dependent sources. Access may help to achieve economically viable investment and encourage efficient use of urban and regional water and wastewater infrastructure."

(p 149) "A state-based access regime for South Australia will include:

- provisions to allow access;

- a licensing regime to regulate the involvement of the private sector in the supply of water or wastewater services. This will include provisions to protect public interest, public health and the environment;
- development of customer protection arrangements via codes and other instruments;
- provision for appropriate involvement of an independent economic regulator in facilitating access.”

The draft Water Industry Bill (section 27) also commits the Minister for Water to ensuring that a final report relating to third party access is prepared by 1 July 2012. While not stated publicly, the existing provisions of the Trade Practice Act will be examined as part of this process.

3. What is the rationale for the current SA Water pricing structure and the use of rising blocks? Why do we consider this appropriate? Can we provide anything as to how this pricing structure was determined?

It was recognised in *Water for Good* that a single, volumetric price, reflecting the long-run marginal cost of supply provides the most economically efficient water use signal to customers. The NWI pricing principles note that water use prices may include more than one tier for policy reasons, but where more than one tier is adopted, prices should have regard to the Long Run Marginal Cost (LRMC) of supply to promote sustainable water use.

For residential water use, a three-tier inclining block structure is in place. Retaining this inclining block tariff structure is driven by a desire to:

- Manage the impact of residential customers by smoothing the transitions to higher water prices over a period of time;
- Ensure social equity considerations are adequately provided for until equity instruments can be fully separated from the pricing policy;
- Retain conservation signals for residential customers using higher levels of water.

In its Vision for a Sustainable Urban Water Future, WSAA confirms that inclining block structures across Australia have begun to send stronger price signals to high urban water users.

Recognising that cost-reflective water use prices provide the most economically efficient water use signal to customers, residential and non-residential prices will continue to gradually transition towards the estimated LRMC. Options to reduce transitional impacts for residential and non-residential customers will be considered

4. Will ESCOSA’s current operating provisions in regard to electricity, particularly their high level of transparency, still apply to the arrangements for the water sector?

The majority of ESCOSA’s functions and powers, including their requirement to consult, formation of MoUs and the publication of certain documents, are prescribed under the *Essential Services Commission Act 2002*.

The ESC Act ensures that the Commission is obliged to operate openly and transparently when undertaking its activities concerning regulated industries.

The *Water Industry Bill* has declared the water industry to be a regulated industry under S17. This now activates the Commission’s powers under the ESC Act. Therefore, the Commission’s current operating approach used for the gas and electricity industries will be applied consistently to the water industry.

5. Is any of the information / analysis used as a basis for developing *Water for Good* publically available?

The only report that has been released publically is the Urban Stormwater Harvesting Options Study (USHOS), which identifies potential sites and options for large-scale stormwater harvesting and storage in the Adelaide region, which was released simultaneously with *Water for Good*. A copy is available from: <http://www.waterforgood.sa.gov.au/2009/06/urban-stormwater-harvesting-options-study/>.

Other analysis and documents remain Cabinet in Confidence.

6. What is the Government's rationale for maintaining postage stamp pricing?

Statewide pricing is an important element of the Government's approach to equity, social justice and regional development.

In its 2010-11 transparency statement on water and sewerage prices (Part A), the Government indicated that, given higher costs in many regional areas, water and sewerage services are provided to many regional customers at less than total economic cost, including return on assets. Full cost recovery for water and sewerage services in regional areas, and therefore compliance with the National Water Initiative, has been achieved via transparently reported CSO payments.

The transparency statement also states that for the 2010-11 pricing decision, SA Water's regional business segment, through the Government's Statewide uniform charging policy and the application of its CSO policy, will achieve the upper regional bound. CSO payments are reported transparently in SA Water's Charter and disclosed in SA Water's Annual Report, which is tabled in Parliament.

The transparency statement also notes that in *Water for Good* the Government has endorsed a review by ESCOSA into the effect of Statewide pricing.

A copy of the 2010-11 transparency statement on water and sewerage prices (Part A) is available from http://www.treasury.sa.gov.au/dtf/infrastructure_support/water.jsp

7. Do we have a policy position in regard to the use of recycled water for potable use – is it the same as our stance on stormwater?

State Government policies in relation to water security are set out in *Water for Good*. This includes statements concerning the use of recycled wastewater and stormwater.

Water for Good includes wastewater recycling targets and actions for reuse of wastewater for non-drinking purposes and states, "*augmenting public drinking water supplies with treated wastewater is not proposed*". This reflects that a need to recycle wastewater for drinking in South Australia has not been established and that based on best available current knowledge the measures outlined in *Water for Good* are expected to be sufficient to address water security without the need to recycle wastewater for potable use within the timeframe of the plan (2050).

Nevertheless, it should be noted that *Water for Good* is based on an adaptive management framework with regular review of its assumptions and underlying supply and demand augmentation scenarios. In relation to wastewater recycling *Water for Good* states that

“technological advances and changing requirements will emerge and, as part of the adaptive management framework, will be assessed”.

Water for Good also includes actions and targets for recycling stormwater for non-drinking uses. In regard to the potential to recycle stormwater for drinking, *Water for Good* states that

“Augmenting drinking water supplies with highly treated stormwater cannot proceed without:

- *Appropriate understanding of the risks, and confidence that they can be managed*
- *Knowledge of the significant public health benefits, especially when this type of recycling is compared to other available options such as continued use of stormwater for non-drinking purposes through ‘third pipe’ systems*
- *Strong community support”.*

These considerations are equally relevant to other types of recycled water that might be considered for drinking supplies, which would need to take into account the risks and other factors relevant to the source of water.

South Australia supports further research of potential uses of recycled water, including for applications that would require a high quality. The Government has also supported and contributed towards the development of Australian guidelines for the safe use of recycled water, which include an Augmentation of Drinking Supplies module released in 2008.