

# **2012-13 DRINKING WATER AND SEWERAGE PRICES**

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## **REGULATORY STATEMENT**



**Government  
of South Australia**

**July 2012**

## TABLE OF CONTENTS

|          |  |           |
|----------|--|-----------|
| <b>1</b> | <b>INTRODUCTION .....</b>  | <b>1</b>  |
| 1.1      | PURPOSE AND CONTEXT .....  | 1         |
| 1.1.1    | <i>National Water Initiative</i> .....                             | 1         |
| 1.1.2    | <i>Water for Good</i> .....  | 1         |
| 1.1.3    | <i>Transition to independent economic regulation</i> .....         | 2         |
| <b>2</b> | <b>PRICING DECISION.....</b>                                       | <b>3</b>  |
| 2.1      | INTRODUCTION.....  | 3         |
| 2.2      | BASIS OF DECISION.....   | 3         |
| 2.2.1    | <i>Drinking water</i> .....  | 3         |
| 2.2.2    | <i>Sewerage</i> .....  | 4         |
| 2.3      | PRICING STRUCTURE.....   | 4         |
| 2.3.1    | <i>Drinking water</i> .....  | 4         |
| 2.3.2    | <i>Sewerage</i> .....  | 6         |
| 2.4      | WATER SECURITY REBATE .....  | 6         |
| <b>3</b> | <b>CUSTOMER IMPACTS.....</b>                                       | <b>7</b>  |
| 3.1      | TOTAL METROPOLITAN RESIDENTIAL AND NON-RESIDENTIAL BILLS.....      | 7         |
| 3.1.1    | <i>Residential drinking water and sewerage customers</i> .....     | 7         |
| 3.1.2    | <i>Non-residential drinking water and sewerage customers</i> ..... | 7         |
| 3.2      | DRINKING WATER.....  | 8         |
| 3.3      | SEWERAGE .....   | 9         |
| 3.4      | CONCESSIONS .....  | 9         |
| <b>4</b> | <b>REGULATORY MODEL ESTIMATES.....</b>                             | <b>10</b> |
| 4.1      | REGULATORY ASSET BASE.....   | 10        |
| 4.2      | ESTIMATES OF FULL COST RECOVERY AND REVENUE .....                  | 11        |
| 4.3      | CONSUMPTION ESTIMATES .....  | 14        |
| 4.4      | COMMUNITY SERVICE OBLIGATIONS .....                                | 15        |

**List of Tables**

|  |    |
|--|----|
| TABLE 1: 2012-13 WATER CHARGES FOR RESIDENTIAL WATER CUSTOMERS .....           | 4  |
| TABLE 2: 2012-13 WATER CHARGES FOR COMMERCIAL WATER CUSTOMERS .....            | 5  |
| TABLE 3: 2012-13 WATER CHARGES FOR OTHER NON-RESIDENTIAL WATER CUSTOMERS ..... | 6  |
| TABLE 4: IMPACT ON RESIDENTIAL METROPOLITAN WATER AND SEWERAGE BILLS .....     | 7  |
| TABLE 5: IMPACT ON INDUSTRIAL METROPOLITAN WATER AND SEWERAGE BILLS .....      | 7  |
| TABLE 6: IMPACT ON COMMERCIAL METROPOLITAN WATER AND SEWERAGE BILLS .....      | 8  |
| TABLE 7: IMPACT ON RESIDENTIAL DRINKING WATER CUSTOMERS .....                  | 8  |
| TABLE 8: CONCESSIONS FOR ELIGIBLE WATER AND SEWERAGE CUSTOMERS .....           | 9  |
| TABLE 9: ADJUSTED INFRASTRUCTURE ASSET BASE (NOMINAL)* .....                   | 10 |
| TABLE 10: REGULATORY MODEL ESTIMATES FOR SA WATER .....                        | 11 |
| TABLE 11: REGULATORY MODEL ESTIMATES FOR METROPOLITAN WATER.....               | 12 |
| TABLE 12: REGULATORY MODEL ESTIMATES FOR COUNTRY WATER .....                   | 13 |
| TABLE 13: REGULATORY MODEL ESTIMATES FOR METROPOLITAN SEWERAGE.....            | 13 |
| TABLE 14: REGULATORY MODEL ESTIMATES FOR COUNTRY SEWERAGE .....                | 14 |
| TABLE 15: ESTIMATES OF DRINKING WATER CONSUMPTION .....                        | 14 |
| TABLE 16: COMMUNITY SERVICE OBLIGATIONS (NOMINAL \$ MILLION) .....             | 15 |

# 1 Introduction

## 1.1 Purpose and context

This Regulatory Statement provides information about the South Australian Government's 2012-13 drinking water<sup>1</sup> and sewerage pricing decision for SA Water.

This pricing decision was made in the context of *Water for Good*, the transition to independent economic regulation, and compliance with the National Water Initiative<sup>2</sup> (NWI).

Additional copies of this document can be downloaded from the Department of Treasury and Finance's website at [www.treasury.sa.gov.au](http://www.treasury.sa.gov.au).

### 1.1.1 National Water Initiative

In June 2004, the South Australian Government signed the NWI. The NWI is supported by pricing principles<sup>3</sup>, including full cost recovery for water services, which were established by the Natural Resource Management Ministerial Council in 2010. Some funding agreements between the South Australian Government and the Federal Government require compliance by the South Australian Government with the NWI pricing principles.

The Government considers that the 2012-13 pricing decision continues to fully comply with the NWI by recovering efficient regulatory costs.

These regulatory outcomes are described in the tables in section 4.

### 1.1.2 Water for Good

In 2009, the Government released the *Water for Good*<sup>4</sup> Plan in response to the NWI and South Australia's severe drought. Key actions included:

- The construction of the Adelaide Desalination Plant and its expansion to 100 gegalitres (GL) per year in response to the need to meet current and future water supply needs in the context of a projected drier climate.
- Completing the investigation for the design of, and need for, interconnection works between Adelaide's southern and northern water supply systems.
- Water pricing and market instrument activities, including:
  - quarterly water consumption bills;
  - transition to a single drinking water use price for SA Water's non-residential customers;
  - continued application of state-wide pricing and support of low-income households through transparent, targeted concessions schemes;

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<sup>1</sup> Drinking water refers to water supplied by SA Water's drinking water reticulation system.

<sup>2</sup> Available at <http://www.nwc.gov.au/www/html/117-national-water-initiative.asp>

<sup>3</sup> Available at <http://www.environment.gov.au/water/policy-programs/urban-reform/nwi-pricing-principles.html>

<sup>4</sup> Available at <http://www.waterforgood.sa.gov.au/water-planning/the-plan/>

- the appointment of the Essential Services Commission of South Australia (ESCOSA) as independent economic regulator of the South Australian water industry; and
- the introduction of a water planning and management cost recovery framework.

### **1.1.3 Transition to independent economic regulation**

A key milestone for the *Water for Good* Plan was achieved by Parliament passing the *Water Industry Act 2012* that appoints ESCOSA as the independent economic regulator for the South Australian water industry. The Act is expected to commence from 1 July 2012.

The Government is required to make the 2012-13 pricing decision under current legislation. Transitional provisions under Schedule 2, Part 10 of the *Water Industry Act 2012* ensure that the Government's 2012-13 pricing decision, established in accordance with the *Waterworks Act 1932* and the *Sewerage Act 1929*, remain effective.

This is the last Regulatory Statement that will be issued by the Department of Treasury and Finance. ESCOSA will publicly consult on its future price determinations.

## 2 Pricing Decision

### 2.1 Introduction

On 21 May 2012, the South Australian Government announced its 2012-13 pricing decision for SA Water's drinking water and sewerage services. For SA Water customers, on 1 July 2012:

- Drinking water charges will rise by 25%, on average.
- Metropolitan sewerage charges will rise by 3.3% and country sewerage charges will rise by 3.8%, on average.

In recognition of recent water price increases, a one-off water security rebate will be applied to SA Water's residential drinking water customers' bills from 1 January 2013. For an average metropolitan residential property that consumes 190 kL each year, the total water and sewerage bill will increase by 9.4%.

### 2.2 Basis of decision

Consistent with NWI pricing principles that require full cost recovery for drinking water and sewerage services, the key reasons for the increases in water and sewerage charges are discussed below.

#### 2.2.1 Drinking water

The significant increase in drinking water charges reflects SA Water's continued investment in securing South Australia's drinking water supply. Key water security initiatives include:

- Construction of the \$1.8 billion Adelaide Desalination Plant (ADP) at Port Stanvac, which delivered water to customers from October 2011. When fully operational, the ADP will be capable of producing up to 100 GL per annum of desalinated drinking water.
- Connection of the northern and southern water supply systems as part of the \$0.4 billion North South Interconnection System Project, enhancing security of water supply and providing further flexibility to South Australia's water sources.

Drinking water consumption did not rebound as expected when water restrictions were lifted. This has been taken into account in demand forecasts and future operating costs.

As part of the transition to economic regulation, the Government has worked with ESCOSA to determine the prudence and efficiency of SA Water's proposed capital expenditure. The process included an independent engineering review. The review identified opportunities for substantial reductions in capital expenditure in future years, while maintaining service standards. These reductions have been incorporated into the regulatory model. The 2012-13 charges also incorporate a 1% capital efficiency target for SA Water.

The 2011-12 Regulatory Statement signalled that the 2012-13 pricing decision would be the last significant price increase due to water security. Although ESCOSA's price determinations cannot be pre-empted, CPI-like price increases for SA Water's drinking water services are expected from 2013-14.

## **2.2.2 Sewerage**

Several significant infrastructure projects were completed in 2011-12, with lower capital expenditure on sewerage treatment and recycled water projects planned in 2012-13. Significant infrastructure projects, which influence future prices, include the Murray Bridge wastewater treatment plant upgrade, the Bolivar wastewater treatment plant upgrade works, the Glenelg wastewater treatment plant screens, and the Queensbury wastewater pump station replacement.

## **2.3 Pricing structure**

### **2.3.1 Drinking water**

The price structures for residential, industrial and commercial customers to achieve the required increase in revenue are outlined below. The new charges will apply to water consumed during the 2012-13 financial year.

This pricing decision continues to apply the Government's state-wide pricing policy that is based on applying the same charge to all SA Water customers in South Australia who are connected to SA Water's network, regardless of location. This is supported by a community service obligation payment by the Government to SA Water of \$47.9 million.

#### ***Residential***

Residential water charges consist of a fixed supply charge and a three tier usage charge. The 25% increase will be applied evenly to each component of the pricing structure as shown in Table 1 below. The third tier only applies to single dwellings (i.e. it does not apply to blocks of flats).

**Table 1: 2012-13 Water charges for residential water customers**

| <b>Component</b>                 | <b>2011-12</b> | <b>2012-13*</b> |
|----------------------------------|----------------|-----------------|
| Annual Water Supply Charge       | \$234.60       | \$293.00        |
| Water Usage                      |                |                 |
| - Tier 1 (0-30kL per quarter)**  | \$1.93/kL      | \$2.42/kL       |
| - Tier 2 (30-130kL per quarter)  | \$2.75/kL      | \$3.45/kL       |
| - Tier 3*** (>130kL per quarter) | \$2.98/kL      | \$3.73/kL       |

Source: SA Water

\*Charge increases expressed in nominal dollars (i.e. including inflation).

\*\* Quarterly thresholds are indicative. Actual quarterly thresholds are adjusted based on the number of days in the billing period.

\*\*\* For single residential dwellings only.

According to the NWI pricing principles, the Government should have regard to long run marginal cost (LRMC) when setting usage charges. For the 2012-13 pricing decision, the second tier usage charge exceeds the recent upper estimate of LRMC of \$2.75 per kilolitre (kL). If this principle was applied strictly, most of the price increase would be applied to the supply charge. This would have a disproportionate impact on small drinking water customers. Nevertheless, the NWI pricing principles also provide governments with some discretion on policy grounds.

The National Water Commission and the Productivity Commission have recently noted that regulated water prices based on LRMC do not reflect changes in water availability and could not respond adequately to changing conditions, particularly during the drought. The Productivity Commission proposed a more flexible approach

that reflects water availability. Other regulators are also reviewing the basis of water usage charges and the use of LRMC.

Consistent with *Water for Good*, the Government proposes that ESCOSA should consult on future water pricing reform and provide its advice to the Government. Changes to the structure of water prices would then be considered further after the Government has received ESCOSA's advice.

***Non-residential***

SA Water has two categories of non-residential customers:

- Commercial customers, including retail, wholesale, and various other service providers.
- Other non-residential customers, including industrial and rural customers, hospitals and hotels.

A key *Water for Good* action is the transition to a single drinking water usage charge for SA Water's non-residential customers. *Water for Good* states that:

*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 LRMC of supply to promote sustainable water use.*

*While discounting water use up to 120 kL for residential customers may be justified on social equity grounds, the same discounting may not be justified for non-residential customers. Non-residential customers will be transitioned to a single water use price.*

The 2012-13 water price structure for non-residential customers implements a single volumetric price for water, as required by Action 71 of *Water for Good*.

The price structure for commercial customers is outlined in Table 2 below. The commercial customer price structure retains a water supply charge based on property rates. (Note that the actual rate in the dollar is not determined until June 2012 when the latest property values are available).

**Table 2: 2012-13 Water charges for commercial water customers**

| <b>Component</b>               | <b>2011-12</b> | <b>2012-13*</b>        |
|--------------------------------|----------------|------------------------|
| Water Supply Charge            |                |                        |
| Charge based on property value |                | 11% average increase** |
| Minimum                        | \$273.00       | \$293.00               |
| Water Usage                    |                |                        |
| - Tier 1 (0-30kL per quarter)  | \$2.13/kL      | \$3.45/kL              |
| - Tier 2 (>30kL per quarter)   | \$2.75/kL      |                        |

Source: SA Water

\* Charge increases expressed in nominal dollars (i.e. including inflation).

\*\* Rate in the dollar, consistent with the indicated increase, to be determined in June 2012 when the latest Valuer General property values for 2012-13 can be used to determine a rate consistent with the average 11% increase.

Other non-residential customers have a fixed supply charge and the same two tier usage charge as commercial customers. The price structure for other non-residential customers is outlined in Table 3 on the following page.



**Table 3: 2012-13 Water charges for other non-residential water customers**

| <b>Component</b>              | <b>2011-12</b> | <b>2012-13*</b> |
|-------------------------------|----------------|-----------------|
| Water Supply Charge           | \$273.00       | \$293.00        |
| Water Usage                   |                |                 |
| - Tier 1 (0-30kL per quarter) | \$2.13/kL      | \$3.45/kL       |
| - Tier 2 (>30kL per quarter)  | \$2.75/kL      |                 |

Source: SA Water

\* Charge increases expressed in nominal dollars (i.e. including inflation).

### **2.3.2 Sewerage**

Sewerage charges are based on a customer's property value, subject to a minimum charge.

The Government approved an increase in property based sewerage charges of 3.3% for metropolitan customers and 3.8% for country customers, on average, with actual rates to be fixed in June 2012. In 2011-12, the average sewerage bill for residential customers in the country was 13% less than for metropolitan customers. The slightly higher increase for country sewerage charges is intended to continue a gradual increase in the average country customer's charge to bring it closer to those in the city.

The minimum charge for 2012-13 will increase from \$325 to \$336 per year (i.e. a 3.3% increase) for both metropolitan and country customers.

## **2.4 Water security rebate**

In recognition of the recent water price increases, including increases in 2012-13, the Government will apply a one-off water security rebate to SA Water's residential drinking water customers' bills from 1 January 2013. The rebate will apply to one quarterly residential bill and will not apply to vacant residential allotments that record no water usage.

The water security rebate will be:

- \$45 per residential drinking water customer with an account that recorded drinking water usage of less than or equal to 120kl in the prior year; and
- \$75 per residential drinking water customer with an account that recorded drinking water usage of more than 120kl in the prior year.
- Properties, such as retirement villages and blocks of flats, that have multiple residences on a single title will automatically receive a minimum rebate of \$45 and an additional \$45 for each 120kL billed above 120kL.

### 3 Customer impacts

The increase in drinking water charges that is required to recover South Australia's water security investments continues to have a significant impact on customers. On the other hand, the impact of the increase in sewerage charges has been relatively modest. This section provides information on the customer impacts of the recent increases in water and sewerage charges.

#### 3.1 Total metropolitan residential and non-residential bills

##### 3.1.1 Residential drinking water and sewerage customers

The forecast impact on residential metropolitan water and sewerage customers in 2012-13 is outlined in Table 4 below. The impact is reduced by the water security rebate, as shown in the table.

**Table 4: Impact on residential metropolitan water and sewerage bills**

| Metro water and sewerage                       | 2011-12 | 2012-13 Bill* | Water - security rebate | 2012-13 = Bill after rebate | % increase |
|--|---------|---------------|-------------------------|-----------------------------|------------|
| Typical 1 person household (120kL per annum)   | \$945   | \$1 078       | \$45                    | \$1 033                     | 9.3%       |
| Average residential property (190kL per annum) | \$1 138 | \$1 320       | \$75                    | \$1 245                     | 9.4%       |
| Typical large household (340kL per annum)      | \$1 550 | \$1 837       | \$75                    | \$1 762                     | 13.7%      |

Source: SA Water and Treasury and Finance

\* Bills and resultant percentage increases based on nominal dollars (i.e. including inflation). Bills reflect the sewerage charge for the average valued metropolitan residential property.

##### 3.1.2 Non-residential drinking water and sewerage customers

The forecast impact on industrial metropolitan drinking water and sewerage customers in 2012-13 is outlined in Table 5 below.

**Table 5: Impact on industrial metropolitan water and sewerage bills**

|                         | Water use (kL) | Capital value | 2011-12     | 2012-13*    | % increase |
|-------------------------|----------------|---------------|-------------|-------------|------------|
| <b>Industrial</b>       |                |               |             |             |            |
| Small dry industry      | 200            | \$600 000     | \$1 556     | \$1 817     | 16.8%      |
| Small industry          | 800            | \$1 400 000   | \$4 282     | \$4 998     | 16.7%      |
| Food industry           | 50 000         | \$3 000 000   | \$141 734   | \$176 962   | 24.9%      |
| Major beverage producer | 100 000        | \$14 000 000  | \$294 029   | \$364 746   | 24.1%      |
| Very large industrial   | 1 000 000      | \$15 000 000  | \$2 770 374 | \$3 471 136 | 25.3%      |

The forecast impact on commercial metropolitan drinking water and sewerage customers in 2012-13 is outlined in Table 6 below.

**Table 6: Impact on commercial metropolitan water and sewerage bills**

|                              | Water use (kL) | Capital value | 2011-12   | 2012-13*  | % increase |
|------------------------------|----------------|---------------|-----------|-----------|------------|
| <b>Commercial</b>            |                |               |           |           |            |
| Delicatessen                 | 750            | \$400 000     | \$2 806   | \$3 455   | 23.1%      |
| Service station              | 500            | \$1 500 000   | \$4 367   | \$4 978   | 14.0%      |
| Car wash                     | 6 000          | \$850 000     | \$14 038  | \$17 368  | 23.7%      |
| Local supermarket            | 3 000          | \$7 000 000   | \$22 484  | \$25 530  | 13.5%      |
| Local hotel/bottle shop      | 4 000          | \$6 000 000   | \$17 894  | \$20 705  | 15.7%      |
| High rise hotel              | 60 000         | \$50 000 000  | \$232 449 | \$276 769 | 19.1%      |
| Multi storey office building | 10 000         | \$50 000 000  | \$129 626 | \$142 926 | 10.3%      |
| Major shopping mall          | 70 000         | \$300 000 000 | \$805 626 | \$892 056 | 10.7%      |

Source: SA Water

\* Bills and resultant percentage increases based on nominal dollars (i.e. including inflation). The sewerage charge reflects metropolitan sewerage rates.

### 3.2 Drinking water

The 2012-13 price structure for drinking water charges distributes the price increase evenly across the supply charge and the three usage charge tiers for residential customers.

The forecast impacts of the proposed drinking water charges on typical residential customers with varying water usage are outlined in Table 7 below.

**Table 7: Impact on residential drinking water customers**

|   | 2011-12 | 2012-13<br>Bill* | Water<br>- security<br>rebate | 2012-13<br>= Net Bill | % increase |
|---|---------|------------------|-------------------------------|-----------------------|------------|
| <b>Metro and country water</b>                    |         |                  |                               |                       |            |
| Vacant property                                   | \$235   | \$293            | \$0                           | \$293                 | 24.9%      |
| Very low water user<br>(50kL per annum)           | \$331   | \$414            | \$45                          | \$369                 | 11.4%      |
| Typical 1 person household<br>(120kL per annum)   | \$466   | \$583            | \$45                          | \$538                 | 15.5%      |
| Average residential property<br>(190kL per annum) | \$659   | \$825            | \$75                          | \$750                 | 13.8%      |
| Typical large household<br>(340kL per annum)      | \$1 071 | \$1 342          | \$75                          | \$1 267               | 18.3%      |
| High water user<br>(say 750kL per annum)          | \$2 252 | \$2 821          | \$75                          | \$2 746               | 22.0%      |

Source: SA Water and Treasury and Finance

\* Bills and percentage increases are based on nominal dollars (i.e. including inflation). Calculation of annual charges assumes water is used uniformly across the full year.

Based on an average supply of 190kL of water per household in Adelaide, households would pay \$749.90 in 2012-13 for their total water bill (i.e. including the water security rebate, and the supply and water usage charges). This equates to an increase of about \$91.20 per year, or about \$1.75 per week.

### **3.3 Sewerage**

About 25% of metropolitan residential customers and 46% of residential country customers pay the minimum sewerage rate. This will rise by \$11 per year to \$336 per year.

Residential customers occupying the average valued metropolitan residential property (\$414 000 based on 2011-12 values) will pay an additional \$16 per year, or a total charge of \$495 per year.

Residential customers occupying the average country residential property (\$259 000 based on 2011-12 values) will pay an additional \$16 per year or a total charge of \$411 per year.

### **3.4 Concessions**

Currently pensioners, eligible Centrelink beneficiaries, and Commonwealth Low-Income Health Care Card holders are assisted with water and sewerage bills by a Government funded concession.

On 11 May 2011, the Government enhanced water concessions to assist specific vulnerable customers with the adjustment to higher water prices, in view of the significant increases in water charges required to finance South Australia's future water security.

The water concession increased to 25% of the recipient's total annual water bill, and the maximum and minimum levels of the water concession increased by \$25 in 2011-12 and will increase by a further \$30 in 2012-13 for owner occupiers. Lower increases in the minimum and maximum concession apply for tenants, in recognition that tenants are not generally liable for the water supply charge.

In 2012-13, an increase in the sewerage concession to \$110 is also available, as previously announced.

The South Australian Government concessions for water and sewerage customers are in addition to the one-off water security rebate and are outlined in Table 8 below.

**Table 8: Concessions for eligible water and sewerage customers**

|                                    | <b>Concession in<br/>2011-12</b> | <b>Concession in<br/>2012-13</b> |
|------------------------------------|----------------------------------|----------------------------------|
| Water (minimum for owner occupier) | \$125                            | \$155                            |
| Water (maximum for owner occupier) | \$235                            | \$265                            |
| Water (minimum for tenants)        | \$72                             | \$90                             |
| Water (maximum for tenants)        | \$182                            | \$200                            |
| Sewerage (up to a maximum)         | \$105                            | \$110                            |

Source: Treasury and Finance

## 4 Regulatory Model Estimates

In accordance with the NWI, South Australia has been working with other jurisdictions on a national performance reporting framework for water utilities. SA Water's performance, compared to other Australian utilities of comparable size, can be reviewed in the National Water Commission's National Performance Report.<sup>5</sup>

This Regulatory Statement includes the regulatory model estimates of the regulatory asset base, full cost recovery and revenue, consumption, and community service obligations consistent with the NWI pricing principles. More information about the regulatory model can be found in previous years' Transparency Statements available from [www.treasury.sa.gov.au](http://www.treasury.sa.gov.au).

### 4.1 Regulatory asset base

Table 9, below, outlines the depreciation of assets and illustrates the annual changes in the regulatory asset base. The table includes information for SA Water Corporation and SA Water's water and sewerage business segments.

**Table 9: Adjusted infrastructure asset base (nominal)\***

| <b>SA WATER ASSETS (nominal \$ million)</b> |                |                |                |                |                |
|---|----------------|----------------|----------------|----------------|----------------|
|   | <b>2011-12</b> | <b>2012-13</b> | <b>2013-14</b> | <b>2014-15</b> | <b>2015-16</b> |
| Opening balance                             | 10 036         | 10 452         | 10 788         | 11 131         | 11 527         |
| Capital expenditure                         | 357            | 297            | 325            | 380            | 280            |
| Inflation adjustment                        | 246            | 256            | 264            | 272            | 281            |
| Depreciation                                | (187)          | (217)          | (245)          | (256)          | (269)          |
| Closing balance                             | 10 452         | 10 788         | 11 131         | 11 527         | 11 820         |
| <b>WATER ASSETS (nominal \$ million)</b>    |                |                |                |                |                |
| Opening balance                             | 7 009          | 7 266          | 7 489          | 7 694          | 7 887          |
| Capital expenditure                         | 207            | 193            | 195            | 184            | 183            |
| Inflation adjustment                        | 172            | 178            | 183            | 188            | 193            |
| Depreciation                                | (122)          | (148)          | (173)          | (179)          | (186)          |
| Closing balance                             | 7 266          | 7 489          | 7 694          | 7 887          | 8 076          |
| <b>SEWERAGE ASSETS (nominal \$ million)</b> |                |                |                |                |                |
| Opening balance                             | 3 027          | 3 186          | 3 299          | 3 437          | 3 640          |
| Capital expenditure                         | 150            | 104            | 130            | 196            | 97             |
| Inflation adjustment                        | 74             | 78             | 81             | 84             | 89             |
| Depreciation                                | (65)           | (69)           | (73)           | (77)           | (83)           |
| Closing balance                             | 3 186          | 3 299          | 3 437          | 3 640          | 3 744          |

Source: SA Water

Table may not add due to rounding.

\* excludes post-corporatisation contributed assets.

<sup>5</sup> Available at <http://nwc.gov.au/publications/topic/urban>.

## 4.2 Estimates of full cost recovery and revenue

The following tables show the regulatory model's estimates for regulated asset values, the two commonly adopted measures of full cost recovery (i.e. upper revenue bound (URB) and go forward full cost recovery (GFFCR)) and revenue for each of SA Water's four segments (i.e. metropolitan water, country water, metropolitan sewerage and country sewerage), as well as for SA Water as a whole. The South Australian Government is complying with its obligations under the NWI as total revenue for SA Water is consistent with GFFCR and lies below URB.

**Table 10: Regulatory model estimates for SA Water**

| SA WATER (nominal \$ million)            |               |               |               |               |               |
|--|---------------|---------------|---------------|---------------|---------------|
|  | 2011-12       | 2012-13       | 2013-14       | 2014-15       | 2015-16       |
| <b>Average regulated asset values*</b>   |               |               |               |               |               |
| Legacy assets                            | 7 318         | 7 333         | 7 343         | 7 350         | 7 352         |
| New assets                               | 3 052         | 3 418         | 3 751         | 4 119         | 4 466         |
| <b>Average asset values</b>              | <b>10 370</b> | <b>10 751</b> | <b>11 095</b> | <b>11 468</b> | <b>11 818</b> |
| <b>URB</b>                               |               |               |               |               |               |
| Operating expenditure                    | 486           | 527           | 541           | 546           | 558           |
| Depreciation                             | 187           | 217           | 245           | 256           | 269           |
| Return on assets (All 6%)                | 622           | 645           | 666           | 688           | 709           |
| <b>Total URB</b>                         | <b>1 295</b>  | <b>1 388</b>  | <b>1 452</b>  | <b>1 490</b>  | <b>1 536</b>  |
| <b>GFFCR</b>                             |               |               |               |               |               |
| Operating expenditure                    | 486           | 527           | 541           | 546           | 558           |
| Depreciation                             | 187           | 217           | 245           | 256           | 269           |
| Return on assets (metro water 3.1%/6%)** | 546           | 568           | 589           | 611           | 632           |
| <b>GFFCR</b>                             | <b>1 218</b>  | <b>1 312</b>  | <b>1 375</b>  | <b>1 413</b>  | <b>1 459</b>  |
| <b>Revenue</b>                           |               |               |               |               |               |
| Water rates                              | 193           | 235           | 242           | 251           | 259           |
| Water sales                              | 469           | 588           | 603           | 617           | 632           |
| Sewerage rates                           | 325           | 339           | 352           | 367           | 381           |
| Community service obligations            | 153           | 105           | 116           | 130           | 146           |
| Other                                    | 65            | 56            | 58            | 59            | 61            |
| <b>Total Revenue</b>                     | <b>1 204</b>  | <b>1 323</b>  | <b>1 371</b>  | <b>1 423</b>  | <b>1 479</b>  |

Source: SA Water.

Table may not add due to rounding.

\*excludes post-corporatisation contributed assets.

\*\* 3.1% is the historical rate of return on SA Water's metropolitan water assets as at the legacy date (30 June 2006). 6% is the rate of return relevant on new assets.

**Table 11: Regulatory model estimates for metropolitan water**

| Metropolitan Water (nominal \$ million) |              |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|
|   | 2011-12      | 2012-13      | 2013-14      | 2014-15      | 2015-16      |
| <b>Average regulated asset values*</b>  |              |              |              |              |              |
| Legacy assets                           | 2 644        | 2 649        | 2 653        | 2 655        | 2 656        |
| New assets                              | 2 012        | 2 195        | 2 351        | 2 490        | 2 617        |
| <b>Average asset values</b>             | <b>4 656</b> | <b>4 844</b> | <b>5 004</b> | <b>5 145</b> | <b>5 272</b> |
| <b>URB</b>                              |              |              |              |              |              |
| Operating expenditure                   | 213          | 242          | 246          | 240          | 240          |
| Depreciation                            | 68           | 91           | 114          | 117          | 122          |
| Return on assets (All 6%)               | 279          | 291          | 300          | 309          | 316          |
| <b>Total URB</b>                        | <b>560</b>   | <b>623</b>   | <b>660</b>   | <b>666</b>   | <b>678</b>   |
| <b>GFFCR</b>                            |              |              |              |              |              |
| Operating expenditure                   | 213          | 242          | 246          | 240          | 240          |
| Depreciation                            | 68           | 91           | 114          | 117          | 122          |
| Return on assets (3.1% / 6%)**          | 203          | 214          | 223          | 232          | 239          |
| <b>GFFCR</b>                            | <b>483</b>   | <b>547</b>   | <b>583</b>   | <b>589</b>   | <b>601</b>   |
| <b>Revenue</b>                          |              |              |              |              |              |
| Water rates                             | 141          | 173          | 178          | 184          | 190          |
| Water sales                             | 311          | 391          | 401          | 410          | 420          |
| Sewerage rates                          | 0            | 0            | 0            | 0            | 0            |
| Community service obligations           | 9            | 10           | 9            | 9            | 9            |
| Other                                   | 22           | 14           | 14           | 14           | 15           |
| <b>Total revenue</b>                    | <b>483</b>   | <b>587</b>   | <b>602</b>   | <b>618</b>   | <b>635</b>   |

Source: SA Water

Table may not add due to rounding.

\*excludes post-corporatisation contributed assets.

\*\* 3.1% is the historical rate of return on SA Water's metropolitan water assets as at the legacy date (30 June 2006). 6% is the rate of return relevant on new assets.

**Table 12: Regulatory model estimates for country water**

| Country Water (nominal \$ million)    |              |              |              |              |              |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
|                                       | 2011-12      | 2012-13      | 2013-14      | 2014-15      | 2015-16      |
| <b>Average regulated asset values</b> | <b>2 570</b> | <b>2 625</b> | <b>2 681</b> | <b>2 742</b> | <b>2 808</b> |
| <b>URB</b>                            |              |              |              |              |              |
| Operating expenditure                 | 135          | 138          | 143          | 148          | 154          |
| Depreciation                          | 54           | 57           | 59           | 62           | 64           |
| Return on assets<br>(All 6%)          | 154          | 157          | 161          | 165          | 168          |
| <b>Total URB</b>                      | <b>343</b>   | <b>352</b>   | <b>363</b>   | <b>374</b>   | <b>387</b>   |
| <b>Revenue</b>                        |              |              |              |              |              |
| Water rates                           | 51           | 62           | 64           | 66           | 69           |
| Water sales                           | 158          | 197          | 202          | 207          | 212          |
| Sewerage rates                        | 0            | 0            | 0            | 0            | 0            |
| Community service obligations         | 106          | 54           | 63           | 73           | 82           |
| Other                                 | 13           | 10           | 10           | 9            | 10           |
| <b>Total revenue</b>                  | <b>328</b>   | <b>323</b>   | <b>340</b>   | <b>355</b>   | <b>373</b>   |

Source: SA Water  
Table may not add due to rounding.

**Table 13: Regulatory model estimates for metropolitan sewerage**

| Metropolitan Sewerage (nominal \$ million) |              |              |              |              |              |
|--|--------------|--------------|--------------|--------------|--------------|
|  | 2011-12      | 2012-13      | 2013-14      | 2014-15      | 2015-16      |
| <b>Average regulated asset values</b>      | <b>2 578</b> | <b>2 696</b> | <b>2 796</b> | <b>2 886</b> | <b>2 965</b> |
| <b>URB</b>                                 |              |              |              |              |              |
| Operating expenditure                      | 112          | 117          | 121          | 126          | 131          |
| Depreciation                               | 53           | 57           | 60           | 63           | 67           |
| Return on assets<br>(All 6%)               | 155          | 162          | 168          | 173          | 178          |
| <b>Total URB</b>                           | <b>320</b>   | <b>336</b>   | <b>349</b>   | <b>363</b>   | <b>376</b>   |
| <b>Revenue</b>                             |              |              |              |              |              |
| Water rates                                | 0            | 0            | 0            | 0            | 0            |
| Water sales                                | 0            | 0            | 0            | 0            | 0            |
| Sewerage rates                             | 291          | 303          | 315          | 328          | 340          |
| Community service obligations              | 7            | 7            | 7            | 7            | 7            |
| Other                                      | 27           | 29           | 31           | 32           | 33           |
| <b>Total revenue</b>                       | <b>324</b>   | <b>339</b>   | <b>352</b>   | <b>367</b>   | <b>380</b>   |

Source: SA Water  
Table may not add due to rounding.



**Table 14: Regulatory model estimates for country sewerage**

| Country Sewerage (nominal \$ million) |            |            |            |            |            |
|---------------------------------------|------------|------------|------------|------------|------------|
|                                       | 2011-12    | 2012-13    | 2013-14    | 2014-15    | 2015-16    |
| <b>Average regulated asset values</b> | <b>566</b> | <b>587</b> | <b>613</b> | <b>696</b> | <b>772</b> |
| <b>URB</b>                            |            |            |            |            |            |
| Operating expenditure                 | 27         | 30         | 30         | 31         | 33         |
| Depreciation                          | 11         | 12         | 13         | 14         | 16         |
| Return on assets (All 6%)             | 34         | 35         | 37         | 42         | 46         |
| <b>Total URB</b>                      | <b>72</b>  | <b>77</b>  | <b>80</b>  | <b>87</b>  | <b>95</b>  |
| <b>Revenue</b>                        |            |            |            |            |            |
| Water rates                           | 0          | 0          | 0          | 0          | 0          |
| Water sales                           | 0          | 0          | 0          | 0          | 0          |
| Sewerage rates                        | 34         | 35         | 37         | 39         | 40         |
| Community service obligations         | 32         | 35         | 37         | 41         | 47         |
| Other                                 | 3          | 3          | 3          | 4          | 4          |
| <b>Total revenue</b>                  | <b>68</b>  | <b>74</b>  | <b>77</b>  | <b>83</b>  | <b>91</b>  |

Source: SA Water  
Table may not add due to rounding.

### 4.3 Consumption estimates

Water restrictions were lifted on 1 December 2010 and replaced with water wise measures. The 2011-12 pricing decision was based on the expectation that customers' consumption would return to 'normal' after water restrictions were lifted.

There is now evidence that the decline in water consumption that occurred during water restrictions may be more permanent, or return to 'normal' at a much slower rate. Water consumption in 2011-12 is estimated to be around 185 GL, which is lower than previously expected.

For this pricing decision, the revised modelling estimate of consumption is 190 GL per year. It does not seek to model short term variability due to changes in weather, but rather is set on an expectation that, over the medium term, consumption will tend towards the modelling estimate.

The estimates of drinking water consumption are shown in Table 15 below.

**Table 15: Estimates of drinking water consumption**

|                    | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|--------------------|---------|---------|---------|---------|
| Modelling estimate | 190GL   | 190GL   | 190GL   | 190GL   |

Source: SA Water

## 4.4 Community service obligations

As a Government enterprise, SA Water is sometimes required to undertake activities that are non-commercial in order to implement or administer Government policy. One example of this is the community service obligation (CSO) that is paid to SA Water to implement the Government's state-wide pricing policy, under which regional customers pay the same water charges and similar sewerage charges as metropolitan customers. For this pricing decision, SA Water's state-wide pricing CSO is set at the same level as for the 2011-12 pricing decision.

Estimated payments to SA Water for CSOs are outlined in Table 16 below.

**Table 16: Community service obligations (nominal \$ million)**

|   | 2011-12      | 2012-13      |
|---|--------------|--------------|
| Statewide pricing                       |              |              |
| <i>Water business</i>                   | 98.7         | 47.9         |
| <i>Sewerage business</i>                | 29.8         | 33.4         |
| Water Proofing Adelaide                 | 6.3          | 6.5          |
| Exemptions and concessions              | 12.2         | 12.3         |
| Emergency functional services           | 0.5          | 0.6          |
| Emergency Services concession (SAPOL)   | 0.1          | 0.1          |
| Administration of pensioner concessions | 0.4          | 0.4          |
| Government Radio Network                | 0.5          | 0.5          |
| River Murray Levy administration        | 0.1          | 0.1          |
| Water security rebate administration    | 0.0          | 0.6          |
| Remote communities                      | 4.5          | 3.2          |
| <b>Total CSO payments</b>               | <b>153.0</b> | <b>105.4</b> |

Source: SA Water  
Table may not add due to rounding.