

TRANSPARENCY STATEMENT
WASTEWATER PRICES IN SOUTH AUSTRALIA
2004-05



**Government
of South Australia**

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2004-05

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AUSTRALIA

TRANSPARENCY STATEMENT — Part A
WASTEWATER PRICES IN SOUTH AUSTRALIA
2004-05



**Government
of South Australia**

South Australian Government
June 2004

Overview of the Transparency Statement

This Transparency Statement on wastewater pricing in South Australia complements the *Transparency Statement on 2004-05 Urban Water Pricing in South Australia*, tabled in Parliament on 1 June 2004. It aims to:

- provide greater transparency in the setting of wastewater prices
- document and report on the matters considered in the Government's 2004-05 wastewater pricing decision
- document the extent to which the Government's wastewater pricing processes have complied with Council of Australian Governments (CoAG) principles.

As foreshadowed in the Transparency Statement on 2004-05 urban water pricing, the Essential Services Commission of South Australia (ESCOSA) conducted an independent inquiry into the pricing processes and the adequacy of the application of CoAG principles.

A number of matters raised in ESCOSA's final report are also relevant to wastewater pricing, but time constraints prevented all of these matters being addressed in the Government's 2004-05 wastewater pricing decision. Nevertheless, the Government has endeavoured to address ESCOSA's findings in this Transparency Statement, particularly those issues that could be addressed in the short term and that are relevant to wastewater pricing.

In June 2004 the Government approved a 3.8% average increase in annual wastewater charges. The new rates were published in the South Australian Government Gazette on 30 June 2004. The Government considers that in reaching this decision, it has achieved a balance of economic efficiency, social justice and environmental issues, and complied with relevant CoAG principles to the extent possible at this time.

Similar to the Transparency Statement on 2004-05 Urban Water prices, the Government intends to refer this Transparency Statement on wastewater pricing to ESCOSA for an independent inquiry into the pricing processes and the adequacy of the application of the CoAG pricing principles. The Transparency Statement will assist ESCOSA with its independent inquiry.

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Abbreviations

AASB	Australian Accounting Standards Board
APS	accounting policy statement
BOD	biochemical oxygen demand
CoAG	Council of Australian Governments
CPA	Competition Principles Agreement
CSO	community service obligation
DAFF	dissolved air filtration and flotation
DHS	Department of Human Services
DTF	Department of Treasury and Finance
DWLBC	Department of Water, Land and Biodiversity Conservation
EIP	environmental improvement program
EPA	Environment Protection Authority
ESCOSA	Essential Services Commission of South Australia
EBIT	earnings before interest and taxes
EBITDA	earnings before interest, taxes, depreciation and amortisation
GBE	government business enterprise
kL	kilolitre (1000 litres)
ML	megalitre (1 million litres)
n.a.	not available
NCC	National Competition Council
NCP	National Competition Policy
NECG	Network Economics Consulting Group
p.a.	per annum
PNFC	public non-financial corporation
ODV	optimised deprival value
OMA	operating, maintenance and administrative
TER	tax equivalent regime
SA Water	South Australian Water Corporation
WACC	weighted average cost of capital
WSAA	Water Services Association of Australia
WWTP	wastewater treatment plant

1 Introduction

1.1 Purpose

This document outlines the South Australian Government's 2004-05 wastewater pricing decision, the processes undertaken in reaching that decision, and the compliance of that decision with principles of the Council of Australian Governments (CoAG).

Many considerations are taken into account by the Government when reaching its decisions on wastewater pricing and urban water pricing.

Considerable information has recently been published on the Government's 2004-05 urban water pricing decision. The *Transparency Statement on 2004-05 Urban Water Pricing in South Australia* (Department of Treasury and Finance, 2004) has been tabled in Parliament, is available on the Department of Treasury and Finance's website¹ and brings together: extensive details of the Government's decision; a review of the Government's processes by the Essential Services Commission of South Australia (ESCOSA) which found "general compliance with CoAG principles (for the first such process)" (ESCOSA, 2004, p 54); and the Government's response to the ESCOSA report.

Given the commonality of issues in urban water and wastewater pricing, and the extensive reporting on urban water issues in the Transparency Statement on 2004-05 urban water pricing, this report on 2004-05 wastewater pricing is restricted to matters of particular relevance to wastewater pricing.

Some of ESCOSA's recommendations arising from its review of 2004-05 urban water pricing are also relevant to wastewater pricing. Where possible, additional information as recommended by ESCOSA (such as benchmarking of customer service standards and efficient business costs) has been included in this report. There has not, however, been sufficient time to fully address ESCOSA's longer term recommendations for Cabinet consideration of the 2004-05 wastewater pricing decision. It is intended that those recommendations will be taken into account in the 2005-06 water and wastewater pricing decisions.

ESCOSA will undertake an independent inquiry of the preparation of advice to Cabinet on its 2004-05 wastewater pricing decision and the compliance of that decision with CoAG principles.

This Transparency Statement on wastewater pricing will assist ESCOSA with that review. It will be published on the Government website www.treasury.gov.au.

1.2 Description of SA Water

The South Australian Water Corporation (SA Water) is established under the *South Australian Water Corporation Act 1994* and subject to the provisions of the *Public*

¹ http://www.treasury.sa.gov.au/water/trans_statemt.html

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Corporations Act 1993. Its primary functions as set out in the *South Australian Water Corporation Act 1994* are to provide services for the:

- supply of water by means of reticulated systems
- storage, treatment and supply of bulk water
- removal and treatment of wastewater by means of sewerage systems.

SA Water provides water and wastewater services to residential, retail and industrial customers throughout metropolitan and country South Australia. Most of its wastewater customers are in the Adelaide metropolitan area, but SA Water also provides wastewater services to: Stirling–Aldgate–Bridgewater–Heathfield, Gumeracha, the Upper Spencer Gulf cities, Murray Bridge, Mannum, Mouth Gambier, Naracoorte, Millicent, Port Lincoln, Victor Harbor, Angaston, Mount Burr and Nangwarry.

SA Water operates in accordance with its Charter (SA Water, 2003) prepared by the Treasurer and the Minister for Administrative Services following consultation with SA Water as required by the *Public Corporations Act 1993*.

SA Water also has a Customer Service Charter (SA Water, 2004), which outlines the standards of service that customers might expect from SA Water.

1.3 Structure of Transparency Statement

In this Transparency Statement, Chapter 2 outlines the processes that have been followed in setting wastewater prices in South Australia for 2004-05 and in preparing the Transparency Statement. It also discusses the forthcoming referral to ESCOSA.

Chapter 3 outlines the CoAG Strategic Framework on wastewater pricing, how the National Competition Council (NCC) has interpreted these principles and the NCC's assessments of South Australia's compliance with the reform agenda.

Chapters 4 and 5 discuss the methodology adopted in setting wastewater prices in South Australia for 2004-05 and how this methodology conforms to the CoAG Strategic Framework.

Chapter 6 presents the Government's decision on wastewater prices to be implemented in 2004-05.

Chapter 7 presents the financial analysis supporting the 2004-05 wastewater pricing decision.

2 Processes

2.1 Introduction

This chapter outlines the processes undertaken by the Government in its 2004-05 wastewater price setting decision and the matters the Government considered in reaching that decision.

2.2 Institutional framework

One of the CoAG principles for institutional reform is that:

the roles of water resource management, standard setting and regulatory enforcement and service provision be separated institutionally (NCC, 1998, p 106).

As noted at the 1999 Tripartite Meeting², the NCC indicated that separate Ministers would be an appropriate form of separation, although not the only form.

In accordance with this separation principle, the Minister for Administrative Services is responsible for SA Water providing water and wastewater services. The Minister for the Environment and Conservation and for the River Murray is responsible for water resource management policy.

The Competition Principles Agreement (11 April 1995) stated:

Prices oversight of State and Territory government business enterprises is primarily the responsibility of the State or Territory that owns the enterprise (NCC, 1998, p 15).

The Minister for Administrative Services, as the Minister responsible for SA Water, brings to Cabinet matters relating to wastewater price setting, including the methodology.

The Treasurer is generally responsible for considering the financial and economic implications of Government policy decisions. Accordingly, the Treasurer is responsible for budget deliberations and financial performance monitoring related to SA Water's functions. The Treasurer is also the Minister responsible for ESCOSA.

In June 2004, the Government, through Cabinet, approved 2004-05 wastewater prices.

Clause 2(3) of the Competition Principles Agreement (11 April 1995) also stated:

Parties will consider establishing independent sources of prices oversight where these do not exist (NCC, 1998, p 15).

Consistent with the intent of this agreement, the Treasurer is to refer an inquiry to ESCOSA of the 2004-05 wastewater price setting processes and the adequacy of the application of CoAG principles.

² A meeting between representatives of senior officials, Committee on Regulatory Reform, Steering Group, Australian and New Zealand Environment and Conservation Council, and NCC on 14 January 1999.

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Conclusion and Recommendation 1

The Government considers that it has separated the role of water resource management from the role of service provision at both ministerial and agency levels to the extent possible at this time.

The Government through the Cabinet process, and in accordance with the CoAG principles, makes wastewater pricing decisions.

2.3 Process for wastewater price setting

In March 2004, the Government approved the processes to be adopted, and the timeframes involved, for setting 2004-05 wastewater prices and for preparing this Transparency Statement. This document is included as Appendix 1.

In March 2004, the Government also noted a comparison of current wastewater price setting practices with CoAG principles and NCC assessments (Appendix 2) and endorsed a methodology for setting 2004-05 wastewater prices (Appendix 3). The methodology indicated that the Government, in reaching its decision, would take into account economic efficiency, equity and social policy, and environmental outcomes, within the context of National Competition Policy (NCP) obligations, CoAG principles and NCC assessments.

In June 2004, the Minister for Administrative Services brought a submission to Cabinet seeking an increase in 2004-05 wastewater prices, which applied the previously approved price setting methodology. The Government subsequently approved a 3.8% average increase in annual wastewater charges. Details of the decision are outlined in Chapter 6.

When reaching this decision, the Government, through Cabinet, considered the outcome of consultations with relevant agencies: Department of Water, Land and Biodiversity Conservation (DWLBC); Department of Human Services; Department of Treasury and Finance; Department of the Premier and Cabinet (NCP Implementation Unit); Department for Business, Manufacturing and Trade; Department for Environment and Heritage; and Office for Regional Development.

In accordance with the *Sewerage Act 1929*, wastewater rates to apply to SA Water wastewater customers in 2004-05 were gazetted in the South Australian Government Gazette on 30 June 2004.

2.4 Matters considered by Cabinet

In setting 2004-05 wastewater prices, the Government is required to consider the economic issues arising from the CoAG principles. The Government is also required to balance this consideration of economic efficiency against community benefit, equity, social justice, and environmental and regional matters.

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Consistent with the processes adopted for the 2004-05 urban water pricing decision, the Government explicitly addressed CoAG principles and NCP obligations in a more structured manner when setting 2004-05 wastewater prices. The CoAG principles were presented to Cabinet and were explicitly applied and detailed in a formal methodology.

Conclusion and Recommendation 2

The Government considers that it has achieved a balance between economic efficiency and community benefits, equity, social justice and environmental and regional policies in its 2004-05 wastewater pricing decision and has complied with CoAG principles to the extent possible at this time.

The Government is responsible for achieving an appropriate balance between economic efficiency and broader community considerations in all its major policy decisions.

2.5 Transparency Statement

The Government has agreed to an inquiry by ESCOSA of the 2004-05 wastewater pricing process and the adequacy of the application of CoAG principles, specifically to address the level of transparency sought by the NCC.

2.5.1 Part A

Part A of the Transparency Statement (this document) documents and provides an overview of the processes and the application of the methodology in the Government's 2004-05 wastewater pricing decision, which is to be applied to SA Water's wastewater customers. This document also discusses how the wastewater pricing decision conforms to CoAG principles.

The Department of Treasury and Finance prepared this Transparency Statement on behalf of the Treasurer. Officers from the Department of the Premier and Cabinet, and DWLBC were consulted in its preparation. SA Water was consulted on factual accuracy and omissions.

2.5.2 Referral to ESCOSA

In accordance with Section 35 of the *Essential Services Commission Act 2002*, the Treasurer is referring an inquiry to ESCOSA of the 2004-05 wastewater price setting processes.

As outlined in the terms of reference (Appendix 4):

- (a) the Commission is to inquire into the processes undertaken in the preparation of advice to Cabinet, resulting in Cabinet making its decision on the level and

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structure of SA Water’s wastewater prices for 2004-05, with respect to the adequacy of the application of CoAG pricing principles

- (b) in undertaking this inquiry, the Commission is to consider the “*Transparency Statement - (Part A) Wastewater Prices in South Australia 2004-05*” dated June 2004
- (c) in considering the processes undertaken for the preparation of advice to Cabinet, the Commission is to advise on the extent to which information relevant to the CoAG principles was made available to Cabinet.

ESCOSA’s comments would become Part B of this Transparency Statement.

3 The CoAG Strategic Framework and NCC interpretations

3.1 Introduction

In February 1994, CoAG endorsed the CoAG Strategic Framework for the efficient and sustainable reform of the Australian water industry. This chapter discusses the CoAG principles related to wastewater pricing and recent assessments of South Australia's achievement of those principles by the NCC.

3.2 The CoAG Strategic Framework — 1994

The CoAG Strategic Framework emphasises the principles of consumption-based pricing, full cost recovery, the removal or transparency of cross-subsidies, and the full disclosure of community service obligations (CSO), where services are provided to customers at less than full cost.

CoAG also agreed that water businesses should earn a real rate of return on the written down replacement cost of assets. The relevant clauses of the CoAG Strategic Framework are included in Appendix 5.

On 10 February 1997, the Prime Minister wrote to all Heads of Government agreeing to extend the CoAG water reform framework to include ground and storm/wastewater (NCC, 1998, p 110).

3.3 The CoAG guidelines

The Agriculture and Resource Management Council of Australia and New Zealand endorsed the Expert Group (1998) report and guidelines for the application of the CoAG Strategic Framework in future pricing determinations on 27 February 1998.

All Premiers and Chief Ministers subsequently endorsed the CoAG guidelines and comments³ (Appendix 5). On the basis of the Expert Group's recommendations, the CoAG guidelines outlined the two core principles of:

- avoiding monopoly rents
- maintaining the ongoing commercial viability of the business.

The guidelines require that both principles should be based on efficient resource pricing and business costs and include taxes and tax equivalent regimes (TER) where appropriate.

3.3.1 *Avoiding monopoly rents — maximum revenue outcome*

The principle of avoiding monopoly rents is consistent with the concept of full economic cost recovery. The CoAG guidelines stipulate that in order to avoid monopoly rents the water business should recover:

- efficient business costs

³ Noted at the Tripartite Meeting on 14 January 1999

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- taxes
- externalities
- provision for asset consumption
- the opportunity cost of capital — calculated using a WACC (weighted average cost of capital).

Therefore full economic cost recovery conceptually defines an upper bound for a water business's revenue generation — called the 'maximum revenue outcome'.

3.3.2 Ongoing commercial viability — minimum revenue outcome

The principle of maintaining the ongoing commercial viability adopted in the CoAG guidelines indicates that a water business should recover, at least:

- efficient business costs
- externalities
- taxes or TERs
- interest cost on debt
- dividends (if any)
- provision for future asset replacement/refurbishment (using the annuity approach).

The principle of maintaining ongoing commercial viability therefore conceptually represents the lower bound for the business's revenue requirements — called the 'minimum revenue outcome'.

3.3.3 Transparency

The CoAG guidelines also require transparency in determining prices, particularly for CSOs, contributed assets, opening value of assets, externalities (including resource management costs) and TERs.

3.4 Other principles incorporated in the CoAG Strategic Framework

A number of other principles included in the CoAG Strategic Framework relate specifically to reform of the management of water resources and rural water services.

The principles most relevant to the Government decision on 2004-05 wastewater services, the subject of this Transparency Statement, have been selected.

3.4.1 Performance monitoring (Clause 6)

CoAG approved the adoption of performance monitoring and international best practice as principles to be adopted to ensure efficient service delivery (ie an appropriate quality of service delivery at minimum cost). Performance monitoring is also relevant for assessing efficient business costs.

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3.4.2 Commercial focus (Clause 6)

CoAG agreed that, subject to each jurisdiction's particular circumstances, water businesses should adopt a commercial focus by contracting out, corporatising or privatising.

3.4.3 Public consultation and education (Clause 7)

CoAG agreed that the service provider should undertake public consultation before new initiatives are adopted. CoAG recommended the development of public education programs on water use and the benefits of reform.

Conclusion and Recommendation 3

As a signatory to the Competition Principles Agreement and related reforms, the Government is committed to adopting the CoAG principles.

3.5 2003 NCP assessment of South Australian wastewater reform

3.5.1 2003 NCP assessment

In the 2003 assessment framework, the NCC expressed concern about the transparency of the price setting process and raised further issues about property based charges and the potential for cross-subsidisation (NCC, 2003a, pp 19–23).

3.5.2 2004 NCP assessment framework

In the 2004 NCP Assessment Framework, the NCC indicated that the Transparency Statement should show that:

SA Water's 2004-05 water and wastewater prices satisfy the requirements of the CoAG water agreement and the pricing principles, particularly the requirements that prices are determined with reference to a revenue target for the business that is based on efficient resource and business costs, that dividends reflect commercial reality, and that there is appropriate transparency in pricing (including of any remaining cross-subsidies) (NCC, 2003b, p 29).

3.5.3 Conclusion

Many of the issues raised by the NCC, such as efficient business costs and dividends, have already been discussed in the Transparency Statement on 2004-05 urban water pricing and ESCOSA's independent inquiry. ESCOSA's findings and comments from the NCC will continue to be addressed in this and future Transparency Statements, to the extent possible.

This Transparency Statement, by definition, focuses on the matters related to wastewater pricing.

4 Wastewater price setting methodology 2004-05 — revenue outcomes

4.1 Introduction

This chapter outlines the methodology adopted by the Government for setting wastewater prices in South Australia for 2004-05, with regard to CoAG principles and particularly maximum and minimum revenue outcomes.

The maximum and minimum revenue outcomes establish a revenue band within which the forecast target revenue (real), derived from the wastewater pricing decision, must lie. The actual values are reported in Chapter 7.

4.2 CoAG principles: Revenue outcomes and revenue target

The CoAG principles on pricing of water related services are broad and generic. The CoAG Strategic Framework stated:

a prescriptive approach that can be universally applied is not practicable (NCC, 1998, p 111).

The methodology for setting wastewater prices in South Australia for 2004-05 is based on these general principles but, as the guidelines are not fully prescriptive, the Government has made some decisions on their detailed application.

Consistent with CoAG principles, the methodology is based on ensuring that the forecast target revenue lies between: maximum revenue outcome (ie the maximum revenue SA Water can earn while not earning monopoly profits); and minimum revenue outcome (ie the minimum revenue sufficient to ensure SA Water's ongoing commercial viability).

In this way a revenue target is established which is sufficient to support an appropriate standard of service based on efficient business costs.

4.3 Maximum revenue outcome, 2004-05 — Avoiding monopoly rents

The maximum revenue outcome is calculated as the sum of:

- operating, maintenance and administrative (OMA) expenses
- return on assets — a real risk-adjusted return on assets
- depreciation — provision for asset consumption
- externalities
- taxes or TERs.

Each component of the maximum revenue outcome is discussed below. Estimates of the maximum revenue outcomes for 2002-03, 2003-04 and 2004-05, including the separate components identified above (except externalities which are reported in section 4.3.4), are reported in Chapter 7.

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Table 10: Adjusted infrastructure asset base (in nominal terms)

Year	Opening balance (\$'000)	Additions* (\$'000)	Inflation# adjustment (\$'000)	Depreciation (\$'000)	Closing balance (\$'000)
Total assets					
2003-04	6,400,760	251,165	76,809	-112,000	6,616,734
2004-05	6,616,734	165,478	79,401	-118,314	6,743,300
Wastewater assets					
2003-04	2,350,836	126,894	28,210	-36,428	2,469,511
2004-05	2,469,511	64,078	29,634	-38,481	2,524,742

* These figures include expenditure on contributed assets (wastewater) of \$38.6 million (\$21.1 million) and \$47.9 million (\$22.7 million) respectively in 2003-04 and 2004-05.

The inflation rate used was 1.2%, based on SA Water's general cost index, and is only applied against opening balance.

The resulting average asset base in real terms is presented in Table 11. To convert the nominal figures used in Table 10 to real figures for Table 11 it was assumed that the asset base is subject to an inflation rate of 1.2%. The average real asset figure (ie the asset base) is used to estimate the maximum revenue outcome.

Table 11: Asset base (in real terms)

Year	Closing balance (nominal) (\$'000)	Closing balance (real) (\$'000)	Average real assets (\$'000)
Total assets			
2001-02	6,038,878*	6,184,681	
2002-03	6,400,760*	6,477,569	6,331,125
2003-04	6,616,734	6,616,734	6,547,152
2004-05	6,743,300	6,663,340	6,640,037
Wastewater assets			
2001-02	2,217,926	2,271,475	
2002-03	2,350,836	2,379,046	2,325,260
2003-04	2,469,511	2,469,511	2,424,278
2004-05	2,524,742	2,494,805	2,482,158

* Actual figures from SA Water's 2001-02 and 2002-03 Annual Reports

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7.2.2 Revenue outcomes

Table 12 displays the components of the estimated maximum revenue outcomes and the minimum revenue outcome and compares them with forecast target revenue. Forecast target revenue reflects the Government’s 2004-05 wastewater pricing decision of a 3.8% average increase in annual wastewater charges.

Table 12: Comparison of revenue outcomes for SA Water — 2002-03 to 2004-05 (in real terms)

Outcome	Total assets			Wastewater assets		
	2002-03	2003-04	2004-05	2002-03	2003-04	2004-05
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<i>Minimum revenue outcome</i>						
Operating expenditure	224,685	216,019	220,016	69,852	71,032	72,675
Depreciation	113,080	112,000	115,428	36,779	36,428	37,543
Interest	85,021	83,818	87,598	26,188	25,329	26,521
Income tax allocation	76,089	76,661	77,875	40,680	44,390	43,551
Dividend allocation	168,966	179,035	159,176	90,335	103,668	89,018
Minimum revenue outcome	667,841	667,532	660,094	263,833	280,847	269,307
<i>Maximum revenue outcome</i>						
Operating expenditure	224,685	216,019	220,016	69,852	71,032	72,675
Depreciation	113,080	112,000	115,428	36,779	36,428	37,543
Return on assets base	379,867	392,829	398,402	139,516	145,457	148,929
Maximum revenue (6% WACC)	717,633	720,848	733,847	246,146	252,916	259,147
Operating expenditure	224,685	216,019	220,016	69,852	71,032	72,675
Depreciation	113,080	112,000	115,428	36,779	36,428	37,543
Return on assets base	506,490	523,772	531,203	186,021	193,942	198,573
Maximum revenue (8% WACC)	844,255	851,791	866,647	292,652	301,402	308,790
<i>Forecast target revenue outcome</i>						
Forecast target revenue: ie Government decision	691,461	674,361	694,416	276,461	284,801	289,798

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The forecast target revenue lies between the maximum revenue outcome (pre-tax real WACC of 8%) and the minimum revenue outcome (Table 12).

Figure 4 and Figure 5 provide an illustrated comparison for 2002-03 to 2006-07 of maximum and minimum revenue outcomes against SA Water's forecast target revenue, for SA Water's wastewater operations and the total business, respectively.

SA Water has provided estimates for 2005-06 and 2006-07 to show the estimated long term effects of the price increase for 2004-05.

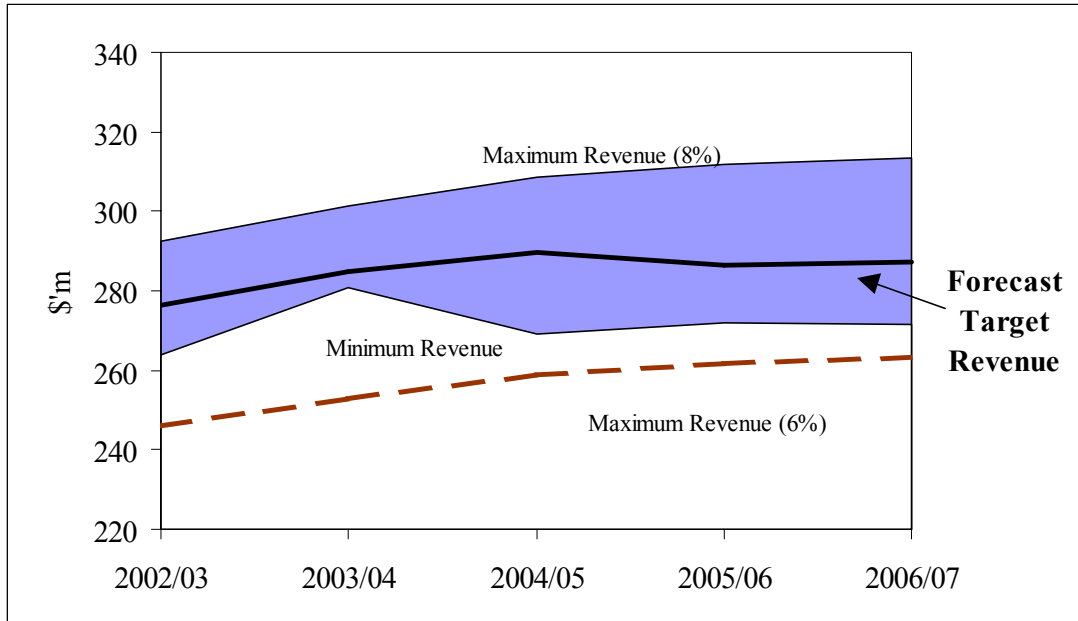


Figure 4: Comparison of wastewater revenue outcomes for SA Water— 2002-03 to 2006-07 (in real terms)

Figure 4 highlights two issues:

- the maximum revenue outcome using a 6% pre tax real WACC is less than the minimum revenue outcome
- the minimum revenue outcome shows a significant spike in 2003-04.

With regard to the first issue, SA Water is earning significantly higher rates of return on its wastewater operations than on its water operations (using the present allocation methodology). Nevertheless, SA Water's forecast target revenue of the total business lies below their respective maximum revenue outcomes using a 6% pre tax real WACC.

The 2003-04 minimum revenue outcome for wastewater spiked because dividends were allocated to the water and wastewater operations on the basis of operating profit and the profitability of these two operations diverged in 2003-04 and because total dividends increased in 2003-04.

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The divergence in operating profit between the two operations is due to:

- reduced water sales in 2003-04, due to the weather and water conservation measures, resulted in a (real) decline in the profitability of water operations
- an increase in the wastewater rate revenue and CSO payment for country wastewater operations, combined with a relatively small increase in the operating expenditure of the wastewater operations, resulted in a (real) improvement in the profitability of the wastewater operations.

The dividends paid to the Government increased in real terms in 2003-04, primarily due to a one-off special dividend of \$10 million, which was accrued in 2003-04⁵.

Figure 4 also illustrates that for the 2004-05 wastewater forecast target revenue to match the:

- wastewater maximum revenue outcome (8% WACC), SA Water would require an increase in real charges of 9.4% (or 12.2% in nominal terms)
- wastewater minimum revenue outcome SA Water would require a decrease in real charges of 7.5% (or 5.2% in nominal terms).

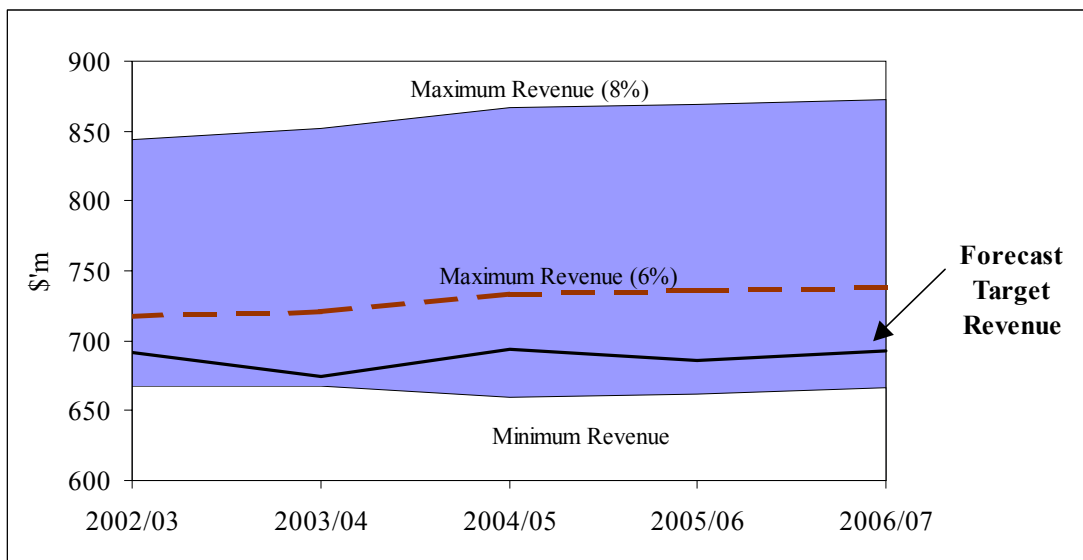


Figure 5: Comparison of total revenue outcomes for SA Water— 2002-03 to 2006-07 (in real terms)

Figure 5 highlights a reduction in total forecast target revenue in 2003-04 when water restrictions saw a reduction in water sales revenue of water operations. It also shows that, as required by the CoAG principles, SA Water's forecast target revenue is between the minimum and maximum revenue outcomes.

⁵ The special dividend arises from the pass-through of certain benefits provided by Riverland Water to SA Water in lieu of economic development obligations contained in its contract with SA Water for the construction and operation of water treatment plants.

TRANSPARENCY STATEMENT – WASTEWATER 2004-05

7.3 Community service obligations

The estimated CSOs and subsidies to SA Water for 2002-03 to 2004-05 for wastewater are provided in Table 13. The various CSOs are explained further in Chapter 6.

Table 13: Estimated CSO payments and subsidies to SA Water for wastewater services

CSO payments (in nominal terms)	Relevant agency	2002-03	2003-04	2004-05
		(\$m)	(\$m)	(\$m)
Service charge exemptions	Human Services	5.7	5.7	5.7
Trade waste	DTED	2.7	2.6	2.4
Statewide pricing/country operations	PIRSA	9.4	9.4	9.4
New country investments	PIRSA	0.7	6.2	7.4
Total CSO (wastewater) payments		18.5	23.9	24.9

7.4 Capital expenditure

SA Water's estimated capital expenditure for 2004-05, in nominal terms, is presented in Table 14. The estimates are provided for SA Water as a whole and therefore include capital expenditure for the water and wastewater operations.

These estimates illustrate the Government's programs in the wine producing areas to Adelaide's north, improvements to the infrastructure assets in both metropolitan and regional areas, and the heightened awareness of security for major infrastructure due to Australian and international factors.

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Table 14: Summary of SA Water’s estimated capital expenditure (in nominal terms)

SA Water	2004-05	Total
	\$’000	\$’000
New works		
CSIS	300	19,300
Completion due 2007-08. Major upgrade of SA Water’s computerised customer information and billing system		
Hindmarsh Valley dam safety	3,189	3,836
Rehabilitation work on the Hindmarsh Valley Reservoir to meet Australian National Committee Standards on Large Dams		
Torrens system upgrade	2,191	7,213
Replace open channel aqueduct with a pipe system to transport water from the Torrens Gorge weir to Hope Valley reservoir		
Works in progress		
Ancillary works Victor Harbor WWTP EIP	320	8,600
Completion due April 2005. Replacement of existing plant on a site remote from Victor Harbor with improved levels of treatment to reduce the level of nutrients discharged to the environment. The total project (\$32.6 million) includes ancillary works by SA Water of \$8.6 million and is partly delivered through a private sector provision arrangement.		
Whyalla EIP	11,084	14,360
New WWTP to be built in Whyalla to satisfy EPA requirements for nitrogen discharge into Spencer Gulf, through partial reuse of treated wastewater		
Clare Valley water supply scheme	2,713	34,800
Provision of bulk water to the Clare Valley for agricultural use and a new reticulated supply to five townships		
Meter replacement Stage 2	4,688	11,624
Second stage of the purchase and installation of 125,000 new meters and 14,000 additional meters to accommodate new services.		
Bolivar high salinity	9,962	97,144
Transfer of wastewater to new treatment facilities at Bolivar WWTP to reduce discharge of nutrients to the marine environment		
Eyre Peninsula water supply upgrade	5,212	25,200
Construction of a water desalination plant at Tod Reservoir to augment the Eyre Region water supply		
Other projects/programs for 2004-05 (approximately 350 individual projects, not separately reported)	90,521	
Total SA Water	130,180	

Source: SA 2004-05 Budget — Capital Investment Statement, page 43

TRANSPARENCY STATEMENT – WASTEWATER 2004-05

7.5 Profit and its distribution

The estimated profits and their distribution for SA Water as a whole for the years 2003-04 and 2004-05 are provided in Table 15.

Table 15: Profits and distributions to the Government for SA Water and wastewater segment as at 2004-05 Budget (in nominal terms)

Item	SA Water		Wastewater segment*	
	2003-04	2004-05	2003-04	2004-05
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
EBITDA #	443,832	478,679	200,430	215,518
Profit after tax	172,204	190,598	94,377	102,804
Retained earnings	115,706	143,085	65,757	80,295
Contribution to Government	255,796	243,125	145,372	136,434
Dividend	183,873	163,219	104,497	91,593
Income tax expense	71,923	79,906	40,875	44,841

* Based on SA Water allocation of revenue and expenditure by business segments

Earnings before interest, tax, depreciation and amortisation

SA Water's contribution to the Government in 2003-04, which includes dividends and income tax expense, is higher than the contribution in 2004-05 due to a one-off accrued special dividend (see section 7.2.2).

The Actual dividends and income tax expense in 2003-04 are expected to be different from the Budget figures and will be reported in the 2005-06 Transparency Statement.

The estimated income tax expense is consistent with the Government's Policy on Competitive Neutrality.

7.6 Profitability and ongoing financial viability

Financial indicators of SA Water's ongoing financial viability, such as indicators of profitability and financial management, are provided in Table 16. They are consistent with the Productivity Commission's definitions of financial performance indicators.

TRANSPARENCY STATEMENT – WASTEWATER 2004-05

Table 16: Summary of financial ratios for SA Water — 2003-04 and 2004-05

Financial ratios	2003-04	2004-05
Profitability		
Return on assets (EBIT/avg total asset)	5.0%	5.3%
Return on equity (ops profit after tax/avg total equity)	3.3%	3.6%
Financial management		
Interest cover times (EBIT/gross interest expense)	3.8	4.0
Debt to equity (total borrowings/total equity)	25%	26%
Dividend payout ratio (dividend/ ops profit after tax)	107%	86%

These financial indicators demonstrate improved profitability and a strong interest cover ratio. Additionally, the dividend payout ratio is declining and there is a low debt to equity ratio.

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Appendices

TRANSPARENCY STATEMENT – WASTEWATER 2004-05

Appendix 1: Processes to set 2004-05 wastewater prices and develop/approve Transparency Statement⁶

Week Commencing	Milestone (Key milestones bolded)
8/3/04	Methodology Cabinet submission to Minister (12/3/04).
15/3/04	Minister forwards Methodology submission to Cabinet (18/3/04). Draft Cabinet submission for pricing decision to agencies for comment. (19/3/04)
22/3/04	
29/3/04	Cabinet endorses the methodology for setting sewerage prices for 2004/05. Cabinet also endorses the processes for preparing a Transparency Statement via a parallel Treasury and Finance submission. Cabinet submission seeking price decision to Minister (2/4/04).
5/4/04	Minister forwards submission seeking price decision to Cabinet (8/4/04).
12/4/04	
19/4/04	Cabinet considers 2004/05 Sewerage Pricing submission – approves level and structure of structure of sewerage rates to be subsequently implemented by Minister (when sufficient 04/05 property valuation data is available).
26/4/04	
3/5/04	
10/5/04	
17/5/04	
24/5/04	Minister approves sewerage rates consistent with Cabinet pricing decision. Rates released as part of Budget announcements*
31/5/04	Treasury and Finance work on finalising Transparency Statement commences

* The timeframes foreshadowed in this schedule are superseded. The Government considered the sewerage pricing submission in mid June. The above schedule foreshadowed approval and release of the actual property rates in the week commencing 24/5/04. However, property valuation data was not available at that

⁶

TRANSPARENCY STATEMENT – WASTEWATER 2004-05

stage. The actual rate in the dollar to be applied to property values was published in the Government Gazette in the last week in June, consistent with previous practice (ie when there is greater certainty about final 04/05 property valuations for the total customer base).

TRANSPARENCY STATEMENT – WASTEWATER 2004-05

Appendix 2: Comparison of current wastewater price setting practices with CoAG principles and NCC assessments

In February 1994, CoAG endorsed the *CoAG Strategic Framework* for the efficient and sustainable reform of the Australian water industry, and agreed to its implementation over a five to seven year period. The CoAG Strategic Framework relating to water resource policy is incorporated into the Compendium of National Competition Policy Agreements (ie the Water Resource Policy). On 10 February 1997, the Prime Minister wrote to all Heads of Government agreeing to extend the CoAG water reform framework to include ground and storm/waste water (NCC 1997 (Compendium), pg 110).

In general Clause 3 (a)) of the NCP Agreements requires:

“... adoption of pricing regimes based on the principles of **consumption based pricing, full cost recovery** and desirably the removal of **cross-subsidies** which are not consistent with efficient and effective service, use and provision. Where cross-subsidies continue to exist, they be made transparent...that where service deliveries are required to provide water services to classes of customer at less than full cost, the cost of this be fully disclosed and ideally be paid to the service deliverer as a **community service obligation (CSO)** “.

Other relevant clauses of the CoAG Strategic Framework are outlined in the first column of the table below. Column two provides the NCC's interpretation of the 1994 CoAG Strategic Framework for water reform as detailed in its 2001 NCP Assessment of South Australian Water Reform. Column three provides the current practices of SA Water and comments from the NCC's 2003 assessment are included in column four.

TRANSPARENCY STATEMENT – WASTEWATER 2004-05

CoAG (1)	NCC Interpretation (1)	SA Pricing Practices - Wastewater	NCC Assessment (2003)
<p>Urban Water Pricing (Clause 3 (b)) “...adoption by no later than 1998 of charging arrangements for water services comprising an access or connection component together with an additional component or components to reflect usage where this is cost-effective;”</p> <p>Expert group to report on asset valuation methods and cost-recovery definitions</p> <p>“That supplying organisations, where they are publicly owned, aiming to earn a real rate of return on the written down replacement cost of their assets, commensurate with the equity arrangements of their public ownership;”</p>	<p><i>Consumption Based Pricing</i></p> <p>Two part tariffs (comprising a fixed access component and a volumetric cost component) where cost-effective. Charges based on property values do not necessarily reflect cost of services.</p>	<p><i>Consumption Based Pricing</i></p> <p>Cabinet approves SA Water prices on the recommendation of the responsible Minister. Legislation requires that prices be gazetted by 31 July each year.</p> <p>Sewerage charges for most customers have a single charge based on property values. A minimum charge of \$251 generally applies.</p> <p>The policy of statewide pricing, supported by CSOs, ensures that country customers pay no more on average than metropolitan customers. A differential property rate applies between metropolitan and country customers to compensate for the lower property values, on average, in the country.</p> <p>Major trade waste discharges</p>	<p><i>Consumption Based Pricing</i></p> <p>“The Council is satisfied that South Australia is appropriately addressing consumption-based pricing obligations relating to water and wastewater services.”</p>

TRANSPARENCY STATEMENT – WASTEWATER 2004-05

CoAG (1)	NCC Interpretation (1)	SA Pricing Practices - Wastewater	NCC Assessment (2003)
<p>Guidelines for the Application of Clause 3 and Expert Group Recommendations (2)</p> <ol style="list-style-type: none"> 1. “Prices will be set by a nominated jurisdictional regulator (or equivalent) who, in examining full cost recovery as an input to price determination, should have regard to the principles set out below. 2. The deprival value methodology should be used for asset valuation unless specific circumstances justify another method. 3. An annuity approach should be used to determine the medium to long term cash requirements for asset replacement/refurbishment where it is desired that the service delivery capacity be maintained. 4. To avoid monopoly rents, a water business should not recover more than the operational, maintenance and administrative costs, externalities, taxes or TERs (tax equivalent regime), provision for the cost of asset consumption and cost of capital, the latter being calculated using a WACC. 	<p align="center"><i>Full Cost Recovery</i></p> <p>Jurisdictions will need to demonstrate that... providers are recovering costs consistent with the agreed guidelines and CoAG commitments.</p> <p>Vertically integrated operators should ensure processes are in place to establish the contribution to total cost of major functional areas such as headworks, bulk water, reticulation and retail</p>	<p>face a two-part charge. The fixed component is based on property rates and a variable component is based on avoidable costs of that customer. Currently pricing arrangements are in transition; as such discounts apply to trade waste customers until 2006-07.</p> <p>Trade waste charges are not included in the current pricing review, given the current, 3 year, permits continue until 2005-06.</p> <p align="center"><i>Full Cost Recovery</i></p> <p>SA Water uses Fair Value method to value assets, which is subject to independent triennial review. The Fair Value method is considered equivalent to Deprival Value.</p> <p>A review of the weighted average cost of capital (WACC) was undertaken in 2001-02 by Leadenhall Australia.</p>	<p align="center"><i>Full Cost Recovery</i></p> <p>An important element of CoAG principles is requirement that prices be set to achieve an appropriate revenue target based on efficient resource and business costs. Elements that determine the revenue target and the target’s connection with prices should be made clear.</p>

TRANSPARENCY STATEMENT – WASTEWATER 2004-05

CoAG (1)	NCC Interpretation (1)	SA Pricing Practices - Wastewater	NCC Assessment (2003)
<p>5. To be viable, a water business should recover, at least the operational, maintenance and administrative costs, externalities, taxes or TERs (not including income tax), the interest cost on debt, dividends (if any) and make provision for future asset refurbishment/replacement (as noted in (3) above). Dividends should be set at a level that reflects commercial realities and stimulates a competitive market outcome.</p> <p>6. In applying (4) and (5) above, economic regulators (or equivalent) should determine the level of revenue for a water business based on efficient resource pricing and business costs. Specific arrangements may justify transition arrangements to that level.</p> <p>7. In determining prices, transparency is required in the treatment of community service obligations, contributed assets, the opening value of assets, externalities including resource management costs, and tax equivalent regimes.”</p>	<p>services. Information on methodologies for asset valuation and provision for asset consumption as well as information on the treatment of taxes and tax-equivalent regimes (TERs), externalities, dividends and return on capital.</p>	<p>Performance Statement agreed by the Minister and Treasurer requires a target return on investment of 6 %.</p>	<p>NCC considers that economic regulation of SA Water by ESCOSA is the preferred approach.</p> <p>NCC considers that SA has not demonstrated compliance with CoAG pricing principles.</p> <p>SA Government’s commitment to produce annual transparency statements on water and wastewater pricing and the proposed terms of reference are sufficient for the 2003 Assessment.</p> <p>Transparency Statement should provide evidence that pricing satisfies CoAG principles. ESCOSA should have full opportunity to comment. ESCOSA’s report should be included in the published Transparency Statement.</p>

TRANSPARENCY STATEMENT – WASTEWATER 2004-05

CoAG (1)	NCC Interpretation (1)	SA Pricing Practices - Wastewater	NCC Assessment (2003)
	<p>have an explicit public benefit objective, and be transparently reported and consistent with CoAG pricing reforms.</p> <p><i>Dividends</i></p> <p>As per Corporations Law, dividends should only be paid out of profits (accumulated retained profits plus current year's profits).</p>	<p><i>Dividends</i></p> <p>The South Australian Government's current dividend policy is not based on dividends alone, but on a total contributions target (eg dividends and the income tax equivalent) of 55% of free cash from operations, (Earnings Before Interest, Tax, Depreciation and Amortisation) EBITDA less that level of capital expenditure agreed with the Treasurer as necessary to maintain the ongoing business operations of the Corporation.</p> <p>SA Water is to report dividend paid to government as a proportion of after tax profit in annual reports.</p>	<p>remaining cross-subsidies and the CSOs provided by SA Water in the annual transparency statements”</p> <p><i>Dividends</i></p> <p>SA's dividend policy of “55 % of EBITDA may result in dividends consistently in excess of 100% of after tax profits which could have unintended impacts on the business's capital structure and financial resources.... exacerbated by lack of independent regulation of prices and service quality”.</p> <p>SA should publish the rationale for level of dividend paid.</p> <p>Cabinet involvement might reduce commercial focus and compromise separation of water regulation from service provision.</p>

TRANSPARENCY STATEMENT – WASTEWATER 2004-05

CoAG (1)	NCC Interpretation (1)	SA Pricing Practices - Wastewater	NCC Assessment (2003)
		<p>Noted that Cabinet processes of determining the dividend consider the long-term focus of SA Water.</p> <p>SA Water’s capital structure and the SA Government’s dividend policy for PNFC’s is under review.</p>	
<p><i>Institutional role separation</i></p> <p>6 (c) “...as far as possible, the roles of water resource management, standard setting and regulatory enforcement and service provision be separated institutionally;”</p> <p>6 (d) “that this occur, where appropriate, as soon as practicable, but certainly no later than 1998;”</p>	<p>January 1999 Tripartite Meeting – separate Ministers would be an acceptable form of separation.</p> <p>If regulator and service provider are responsible to same Minister, Council requires information on how potential conflict of interest has been effectively addressed.</p> <p>Clause 2 of CPA gives implicit support to desirability of independent regulators for independent prices oversight.</p>	<p>The water resource manager (DWLBC) is separate from the service provider.</p> <p>DHS monitors water quality service standards.</p> <p>EPA monitors environmental standards.</p> <p>Performance Statement agreed by Minister and Treasurer includes customer service standards.</p> <p>Cabinet approves prices.</p> <p>DTF has oversight of SA Water’s commercial performance.</p>	<p>SA has not imposed independent oversight of pricing and service standards. Lack of transparency makes it difficult to be confident SA Water’s actions are consistent with CoAG’s principles.</p> <p>NCC looking for proposed annual Transparency Statements on water and wastewater pricing to address the extent of separation of decision making on pricing and service delivery matters.</p>

TRANSPARENCY STATEMENT – WASTEWATER 2004-05

CoAG (1)	NCC Interpretation (1)	SA Pricing Practices - Wastewater	NCC Assessment (2003)
<p>Performance Monitoring and Best Practice 6 (e) "The need for water services to be delivered efficiently as possible...with service providers seeking to achieve international best practice;"</p>	<p>Active participation in benchmarking systems such as WSAA.</p>	<p>SA Water participates actively in national urban water industry performance monitoring and its rolling benchmarking program. Also participates in other ad hoc benchmarking projects to inform specific performance improvement initiatives.</p>	<p>SA Water is participating in WSAA performance monitoring processes.</p>
<p><i>Commercial Focus</i> 6 (f) "that the arrangements in respect of service delivery organisations in metropolitan areas in particular should have a commercial focus, and whether achieved by contracting out, corporatised entities or privatised bodies this be a matter for each jurisdiction to determine in the light of its own circumstances;"</p>	<p>Appropriate structural and administrative responses to CPA obligations regarding legislation review, competitive neutrality and structural reform.</p>	<p>SA Water is a statutory corporation under the <i>Public Corporations Act 1993</i>. SA Water complies with SA Competitive Neutrality Policy Statement.</p>	<p>No comment.</p>
<p><i>Consultation prior to change</i> 7(a) "...public consultation by government agencies and service deliverers where and/or new initiatives</p>	<p>Council will examine extent and methods of public consultation, with particular regard to pricing, allocations and water trading.</p>	<p>Consultation was undertaken in major reviews. (eg Sewerage Pricing in South Australia – Discussion Paper 2000)</p>	<p>Transparency Statement could demonstrate compliance with public consultation obligations.</p>

TRANSPARENCY STATEMENT – WASTEWATER 2004-05

CoAG (1)	NCC Interpretation (1)	SA Pricing Practices - Wastewater	NCC Assessment (2003)
<p>are contemplated involving water resources;” “that where public consultation processes are not already in train in relation to recommendations 3(b), 3 (d), (4) and (5) in particular, such processes will be embarked upon;”</p>			
<p><i>Public Education Programs</i> 7 (c) “that jurisdictions individually and jointly develop public education programs in relation to water use and the need for, and benefits from, reform:” 7(d) “that responsible water agencies work with education authorities to develop a more extensive range of resources materials on water resources for use in schools;” 7(e) “that water agencies should develop individually and jointly public education programs illustrating the cause and effect relationship between infrastructure performance, standards of service and related costs, with a view to promoting levels of service that represent the best value for money to the community.”</p>	<p>Evidence that agencies are working with education authorities. Council notes potential conflict of interest in service provider determining level of public education on water conservation. Council will examine measures used by jurisdictions to address the issue and programs offered by service provider as a good corporate citizen.</p>	<p>SA Water participates in various education programs with the community and education authorities.</p>	<p>Transparency Statement could demonstrate compliance with public education obligations.</p>

TRANSPARENCY STATEMENT – WASTEWATER 2004-05

1. 2001 NCP Assessment/The 1994 CoAG Strategic Framework
2. Additional comments on terms used in the CoAG guidelines, which form part of the CoAG Strategic Framework, are included below.

Comment on guidelines for the Application of Clause 3 and the Expert Group’s recommendations.

The reference to *or equivalent* in principles 1 and 6 is included to take account of those jurisdictions where there is no nominated jurisdictional regulator for water pricing.

The phrase *not including income tax* in principle 5 only applies to those organisations, which do not pay income tax.

Externalities in principles 5 and 7 means environmental and natural resource management costs attributable to and incurred by the water business.

Efficient resource pricing in principle 6 includes the need to use pricing to send the correct economic signals to consumers on the high cost of augmenting water supply systems. Water is often charged for through a two-part tariff arrangement in which there are separate components for access to the infrastructure and for usage. As an augmentation approaches, the usage component will ideally be based on the long-run marginal costs so that the correct pricing signals are sent.

Efficient business costs in principle 6 are the minimum costs that would be incurred by an organisation in providing a specific service to a specific customer or group of customers. Efficient business costs will be less than actual costs if the organisation is not operating as efficiently as possible.

Appendix 3: Wastewater price setting methodology for 2004-05

1. Valuation of Assets

For SA Water’s metropolitan and country sewerage businesses, determine the value of sewerage assets using fair value¹ methodology.

2. Avoiding Monopoly Rents

Establish SA Water forward estimates for 2004/05 of operational, maintenance and administrative costs, externalities, taxes or TER’s, provisions for asset consumption and for cost of capital based on the weighted average cost of capital.

3. Ensuring Commercial Viability

Establish SA Water forward estimates for 2004/05 of operational, maintenance and administrative costs, externalities, taxes or TER’s, dividends, interest payments on debt and provision for asset refurbishment/replacement².

4. Ensuring Prices are Based on Efficient Business Costs

Consider the extent to which costs under 2 and 3 represent efficient resource pricing and business costs having regard to appropriate benchmarks and other factors. Adjust both estimates as necessary to determine measures of the maximum allowable revenue and minimum revenue for viability.

5. Revenue Target

Consider the level of revenue in 2004/05 for the metropolitan and country businesses based on existing price levels and policy settings including provision for agreed community service obligation revenues, in the context of the band of minimum and maximum revenue indicated under 4. Develop forecast target revenue options for 2004/05.

6. Price Signals and Efficient Resource Allocation

Consider any economic signals that might need to be provided by sewerage pricing and in particular whether the current structure of sewerage charges is consistent with efficient resource allocation. Consider any need for pricing options to involve separate components for “consumption” of sewerage services and access to the service.

7. Pricing Options

Determine pricing options for 2004/05, consistent with the forecast target revenue options under 5 while considering any scope for cross-subsidy and the need to manage the impact of price change for customers and the Government’s statewide pricing policies.

8. Pricing Decision

Cabinet to determine the preferred forecast target revenue and an appropriate pricing option taking into account the trade-offs between economic efficiency, social equity and environmental outcomes within the context of the NCP/COAG framework.

TRANSPARENCY STATEMENT – WASTEWATER 2004-05

- Notes:**
1. The CoAG guidelines, based on the original “Expert Group” 1998 guidelines, stipulate that the deprival value method should be adopted for asset valuation “*unless specific circumstances justify another method*”. The South Australia Government Accounting Policy Statement, APS 3, now requires the fair value basis to be applied to the measurement of non-current assets and considers that, in the majority of cases, there will be no practical difference between the 30 June 2003 asset valuations using the ODV approach and the fair value method.
 2. Asset refurbishment/replacement to be based on a straight line basis of depreciation. Whilst the CoAG guidelines recommend an annuity approach, straight line depreciation is still used by some regulators interstate. Rigorous estimates of an annuity amount are not available and straight line depreciation should provide a reasonable approximation.

Appendix 4: Terms of reference for referral to ESCOSA

**NOTICE OF REFERRAL FOR AN INQUIRY INTO
WASTEWATER PRICING PURSUANT TO PART 7 OF THE
ESSENTIAL SERVICES COMMISSION ACT 2002**

FROM: The Hon Kevin Foley, Treasurer

TO: The Essential Services Commission of South Australia

RE: Wastewater Prices from 1 July 2004

BACKGROUND:

1. Pursuant to section 35(1) of the *Essential Services Commission Act, 2002* (**the Act**), the Commission must conduct an inquiry into any matter that the Minister, by written notice, refers to the Commission.
2. The Act is committed to the Treasurer by way of *Gazettal* notice dated 12 September 2002 (p. 3393).
- 1 3. The South Australian Government proposes to publish a Transparency Statement each year on SA Water's water and sewerage prices. The Government has prepared its first Transparency Statement on wastewater prices (i.e. 2004/05).
4. The Transparency Statement links Cabinet's decision on wastewater prices to CoAG pricing principles, provides information on SA Water's financial performance in the context of pricing decisions and past and future expenditures, and addresses details of estimates of revenues, community service obligations, capital expenditure program, profit and its distribution.
5. SA Water is to meet the reasonable costs of the Commission in undertaking the inquiry.

REFERRAL:

I, Kevin Foley, Treasurer, refer to the Commission the matter described in paragraph (a) of the Terms of Reference for inquiry, in accordance with those matters in paragraphs (b) and (c) of the Terms of Reference and subject to the Directions set out in this Notice.

TERMS OF REFERENCE:

The following are the Terms of Reference for the inquiry referred pursuant to section 35(1) of the Act:

- (a) The Commission is to inquire into the processes undertaken in the preparation of advice to Cabinet, resulting in Cabinet making its decision on the level and structure of SA Water's wastewater prices for 2004-05, with respect to the adequacy of the application of CoAG pricing principles;
- (b) In undertaking this inquiry, the Commission is to consider the "Transparency Statement - (Part A) Wastewater Prices in South Australia 2004-05" dated June 2004;
- (c) In considering the processes undertaken for the preparation of advice to Cabinet, the Commission is to advise on the extent to which information relevant to the CoAG principles was made available to Cabinet.

REQUIREMENTS FOR INQUIRY:

The following requirements are made pursuant to section 35(5) of the Act:

- (a) I require that the Commission undertake its inquiry and submit a Draft Report to both myself and the Minister for Administrative Services by no later than 30 September 2004;
- (b) I require that the Commission submit a Final Report on the inquiry to both myself and the Minister for Administrative Services by no later than 14 October 2004;
- (c) In conducting the inquiry, the Commission is not required to hold public hearings, public seminars or workshops but may receive and consider any written submissions as it thinks appropriate and it must advertise to call for written submissions to be lodged no later than 14 days from the date of publication of the Notice of Inquiry as required pursuant to section 36 of the Act;

- (d) If the Commission wishes to seek further information or guidance in relation to the conduct of this inquiry, it may contact the Director, Infrastructure, Microeconomic Reform and Infrastructure Branch, Department of Treasury and Finance.

DIRECTIONS:

The following direction is made pursuant to section 35(5)(f) of the Act:

I direct that in undertaking its enquiry the Commission must preserve the confidentiality of any information, material or documentation provided by Government to enable the Commission to undertake its enquiry and stamped “Strictly Confidential”.



Kevin Foley MP
TREASURER

Appendix 5: CoAG Strategic Framework

Relevant clauses of the CoAG Strategic Framework 1994

In relation to water resource policy, CoAG agreed:

- 2 to implement a strategic framework to achieve an efficient and sustainable water industry comprising the elements set out in (3) ... below.
- 3 In relation to pricing:
 - (a) in general —
 - i. to the adoption of pricing regimes based on the principles of consumption-based pricing, full-cost recovery and desirably the removal of cross-subsidies which are not consistent with efficient and effective service, use and provision. Where cross-subsidies continue to exist, they be made transparent, ...;
 - ii. that where service deliverers are required to provide water services to classes of customer at less than full cost, the cost of this be fully disclosed and ideally be paid to the service deliverer as a community service obligation;
 - (b) urban water services —
 - iii. to the adoption by no later than 1998 of charging arrangements for water services comprising of an access or connection component together with an additional component or components to reflect usage where this is cost-effective;
 - iv. that in order to assist jurisdictions to adopt the aforementioned pricing arrangements, an expert group, on which all jurisdictions are to be represented, report to CoAG at its first meeting in 1995 on asset valuation methods and cost-recovery definitions, and
 - v. that supplying organisations, where they are publicly owned, aiming to earn a real rate of return on the written down replacement cost of their assets, commensurate with the equity arrangements of their public ownership;

Source: NCC, 1998, page 103–104

Guidelines for applying Section 3 of the Strategic Framework and Related Recommendations in Section 12 of the Expert Group Report

1. Prices will be set by the nominated jurisdictional regulators (or equivalent) who, in examining full cost recovery as an input to price determination, should have regard to the principles set out below.
2. The deprival value methodology should be used for asset valuation unless a specific circumstance justifies another method
3. An annuity approach should be used to determine the medium to long-term cash requirements for asset replacement/refurbishment where it is desired that the service delivery capacity be maintained
4. To avoid monopoly rents, a water business should not recover more than the operational, maintenance and administrative costs, externalities, taxes or TERs (tax equivalent regime), provision for the cost of asset consumption and cost of capital, the latter being calculated using a WACC.
5. To be viable, a water business should recover, at least, the operational, maintenance and administrative costs, externalities, taxes or TERs (not including income tax), the interest cost on debt, dividends (if any) and make provision for future asset refurbishment/replacement (as noted in (3) above). Dividends should be set at a level that reflects commercial realities and stimulates a competitive market outcome.
6. In applying (4) and (5) above, economic regulators (or equivalent) should determine the level of revenue for a water business based on efficient resource pricing and business costs.
7. In determining prices, transparency is required in the treatment of community service obligations, contributed assets, the opening value of assets, externalities including resource management costs, and tax equivalent regimes.

Terms requiring further comment in the context of these guidelines (these comments form part of the CoAG Strategic Framework)

- The reference to *or equivalent* in principles 1 and 6 is included to take account of those jurisdictions where there is no nominated jurisdictional regulator for water pricing.
- The phrase *not including income tax* in principle 5 only applies to those organisations which do not pay income tax.
- *Externalities* in principles 5 and 7 means environmental and natural resource management costs attributable to and incurred by the water business.
- *Efficient resource pricing* in principle 6 includes the need to use pricing to send the correct economic signals to consumers on the high cost of augmenting water supply systems. Water is often charged for through a two-part tariff arrangement in which there are separate components for access to the infrastructure and for usage. As an augmentation approaches, the usage component will ideally be based on the long-run marginal costs so that the correct pricing signals are sent.
- *Efficient business costs* in principle 6 are the minimum costs that would be incurred by an organisation in providing a specific service to a specific customer or group of customers. Efficient business costs will be less than actual costs if the organisation is not operating as efficiently as possible.

Source: NCC, 1998, page 112–113

Appendix 6: Benchmarking of service standards and business costs

Introduction

This appendix presents information regarding the benchmarking of service standards and business costs for SA Water.

SA Water participates in *WSAAfacts*, a national benchmarking publication, which is endorsed by the NCC.

SA Water also has its own internal performance standards, which are set out in its Customer Service Charter. A Performance Statement, as agreed with the Minister for Administrative Services and the Treasurer sets financial and service performance standards.

SA Water's service levels are also influenced by minimum environmental standards as set by the EPA respectively.

Comparability of service levels

Information on SA Water's performance relative to interstate water and wastewater service providers is available from *WSAAfacts*. This is the only Australian-wide benchmarking publication to which all major Australian water service providers submit cost details.

However, due to the differences between service providers (eg climate and geographic conditions) and the different markets and legislative environments they operate, *WSAAfacts* warns against the use of its published information to make comparisons between service providers. While it may be possible for the information to be adjusted for these differences, *WSAAfacts* has not undertaken the necessary (and expensive) econometric analysis for the results to be directly comparable between the various water providers.

Another deficiency of *WSAAfacts* is that benchmarking is focused on metropolitan service providers, with only limited benchmarking of regional areas available. Therefore, SA Water only provides information to *WSAAfacts* concerning its Adelaide operations. Some limited benchmarking was undertaken for country regions up to 2001. Due to reduced Commonwealth funding, no benchmarking reports have been produced since then. There are currently no reliable sources of Australian-wide benchmarking for non-metropolitan urban water or wastewater services. Efforts are being made to reinstitute publication of this performance data in future.

In many cases, data sets across jurisdiction are incomplete. These shortcomings should be kept in mind for the following benchmark analysis.

WSAAfacts reviews the performance of 27 urban water utilities. This Transparency Statement provides information on the most relevant service providers:

- Sydney Water
- Brisbane Water
- Water Corporation (Western Australia)
- Melbourne Water, City West Water, South East Water and Yarra Valley Water, or Melbourne Consolidated (the consolidation of the three retailers and the wholesaler)
- ACTEW
- Power and Water (Northern Territory).

System performance

Wastewater reticulation main breaks and chokes

Table 17 reports on the number of wastewater reticulation main breaks and chokes as a proportion of the total number of properties serviced by the company. A reticulation main refers to part of a network of pipes designed to collect sewage from individual households.

Table 17: Number of wastewater reticulation main breaks and chokes per 1000 properties

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Power and Water (NT)	6.8	n.a.	n.a.	3.0	1.6	2.0
Water Corporation (WA)	4.0	3.7	4.1	3.8	3.5	3.8
Brisbane Water	5.0	5.1	3.8	6.2	5.8	5.3
SA Water	9.6	8.1	6.5	5.9	5.8	7.1
Average all companies*	10.3	9.1	8.4	8.1	7.8	9.2
Sydney Water	n.a.	12.0	9.2	10.2	9.8	11.9
ACTEW Corporation	39.9	24.2	24.2	25.1	22.8	26.5
Melbourne Consolidated	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

* *Average of all 27 service providers*

SA Water's performance is around the median of the selected companies and has been consistently better than the average when compared with all the Water Services Association of Australia (WSAA) companies.

SA Water's performance showed a consistent improvement over the reporting period until last year, when all services providers, except Brisbane Water, reported an increase in breaks. According to SA Water, this across the board increase is likely to be related to the drought, particularly in areas where tree roots are a major cause of these problems.

Sewer breaks and chokes

Table 18 reports on the number of breaks and chokes in the short sewer, which connects the main sewer to the customer sanitary drain.

Table 18: Number of property connection sewer breaks and chokes per 1000 properties

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Power and Water	n.a.	n.a.	n.a.	5.4	4.1	3.5
Brisbane Water	2.6	3.1	2.2	2.9	2.9	3.7
South East Water	5.0	7.1	6.3	5.5	4.7	6.4
Average all companies*	16.2	22.2	18.5	15.0	9.4	10.0
ACTEW Corporation	n.a.	113.2	110.8	96.5	10.0	11.7
City West Water	17.1	16.5	9.8	9.5	8.6	12.6
Yarra Valley Water	12.5	13.6	11.9	11.9	11	14.8
SA Water	43.7	39.6	35.1	32.1	31.5	35.1
Sydney Water	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Water Corporation	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

* *Average of all 27 service providers*

While trending downwards until 2002-03, SA Water's results have been the poorest, although based on an incomplete dataset. Only the Northern Territory Power and Water Authority reported an improvement in performance in 2002-03.

SA Water is currently examining the reasons for the increase in sewer chokes in the mains and connections and why there is a significant difference between SA Water and other selected suppliers. The principal cause of chokes in the mains and connections in metropolitan Adelaide is the incursion of tree roots. It is believed that the major cause of the increase in 2002-03 was very dry weather, which resulted in drier ground conditions and increased tree root incursion.

Wastewater break or choke repair time

Table 19 reports on the average time taken (in hours) to repair a main, from the time of arrival on site to restoration of full normal wastewater service. This does not include repair times relating to chokes, bursts and leaks in the property connection sewer.

Table 19: Average wastewater break or choke repair time (hr)

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
ACTEW Corporation	n.a.	n.a.	n.a.	n.a.	0.6	0.5
SA Water	n.a.	n.a.	1.0	1.2	0.9	1.0
Sydney Water	n.a.	2.0	1.5	1.6	1.2	1.2
Power and Water	n.a.	n.a.	1.6	1.9	2.0	1.5
Yarra Valley Water	n.a.	n.a.	n.a.	n.a.	1.3	1.7
Average all companies*	2.3	2.0	1.8	2.2	1.8	1.8
South East Water	2.5	2.8	2.4	2.1	2.1	2.2
Brisbane Water	n.a.	2.5	2.6	2.6	2.8	2.7
City West Water	n.a.	4.2	4.0	4.2	2.0	3.0
Water Corporation	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

* *Average of all 27 service providers*

From the reported data, SA Water's results have been consistently best or next best of the selected companies and better than the average of all WSAA companies.

SA Water's performance has remained steady since it started reporting on this performance standard. The results for the other providers have been mixed, with only Sydney Water and South East Water reporting a consistent improvement in performance.

Wastewater overflows

Table 20 reports on untreated wastewater spills or discharges and escapes from the wastewater system (ie pumping stations, pipes, maintenance holes or designed overflow structures) to the external environment. It does not include overflows caused by a blockage in the property connection sewer or spills, discharges or overflows that escape to designed storages.

Table 20: Number of wastewater overflows per 100 km

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Power and Water	n.a.	n.a.	n.a.	0.3	0.6	1.1
Melbourne Consolidated Water Corporation	n.a.	14.2	12.5	10.6	5.8	5.5
SA Water	15.1	16.7	12.3	11.5	12.2	14.2
Brisbane Water	n.a.	23.8	11.7	29.0	16.0	19.5
Average all companies*	26.7	24.6	18.8	32.5	32.8	34.7
Sydney Water	114	83.3	63.4	72.3	69.1	85.7
ACTEW Corporation	n.a.	n.a.	n.a.	46	93.5	102.8

* *Average of all 27 service providers*

SA Water's results have consistently been in the low to mid range of the selected companies and well below the average for all WSAA companies.

SA Water reported improvements in performance until 2001-02. The other selected providers have reported mixed results over the reporting period, although Melbourne Consolidated appears to be the only provider to have significantly improved its performance.

Service delivery

Wastewater treated to a tertiary level

Table 21 reports on the percentage of wastewater that is treated to the tertiary level. The table indicates that, in 2002-03, 81% of SA Water wastewater was treated to tertiary level, and hence, 19% of all wastewater collected was treated at primary or secondary level.

Table 21: Percent of wastewater treated to a tertiary level⁷

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
ACTEW Corporation	100	100	100	100	100	100
Yarra Valley Water	100	100	100	100	100	100
SA Water	0	0	0	17	54	81
Brisbane Water	0	37	36	53	67	76
Water Corporation	0	0	0	0	14	40
Sydney Water	14	11	19	12	17	22
South East Water	2	7	13	12	6	8
Power and Water	0	0	1	1	2	1
City West Water	0	0	0	0	0	0

The degree to which wastewater is required to be treated is an important cost driver. There are significant cost differences in meeting primary, secondary and tertiary levels of treatment, with respect to both operating and capital expenditure.

Typically tertiary treatment, which includes biological nutrient removal plants, chemical dosing, enhanced pond treatment, reverse osmosis and filtration systems, is the most complex and sophisticated treatment level and, therefore, the most expensive to operate.

Of the selected companies only Yarra Valley Water and ACTEW Corporation treat more wastewater at the tertiary level than SA Water.

Up to and including 1999-2000, SA Water treated all of its wastewater in the metropolitan area at the secondary level. Since then and following requirements of the EPA, SA Water has gradually increased the proportion of treatment at tertiary level, resulting in increased treatment costs. It is expected that SA Water will be treating 100% of its wastewater to at least tertiary levels, by 2005-06.

A list of the projects undertaken by SA Water, resulting from the EPA's increased environmental requirements is provided in Chapter 4, Table 3.

Over the last three years, Brisbane Water has also significantly increased its percentage of wastewater treated to a tertiary level.

Odour complaints

Table 22 reports on customer service with regard to the degree of dissatisfaction in respect of odours from the wastewater system.

⁷ Percent of wastewater treated to a tertiary level is calculated by dividing the total volume of tertiary treated wastewater by the total volume of wastewater collected.

Table 22: Number of wastewater odour complaints per 1000 properties

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
ACTEW	n.a.	n.a.	n.a.	n.a.	0.0	0.1
South East Water	n.a.	n.a.	n.a.	n.a.	n.a.	0.2
Yarra Valley Water	0.4	0.4	0.3	0.2	0.2	0.2
City West Water	0.3	0.3	0.3	0.3	0.3	0.3
SA Water	0.7	0.8	0.3	0.8	0.7	0.8
Average all companies*	0.98	0.86	1.00	1.00	1.05	0.95
Sydney Water	n.a.	0.6	0.5	0.7	0.9	1.1
Brisbane Water	0.8	1.0	1.0	0.4	1.2	1.1
Water Corporation	n.a.	n.a.	n.a.	1.4	1.6	1.6

* *Average of all 27 service providers*

SA Water's performance is in the mid range of the selected companies and has consistently been better than the average for all WSAA companies.

SA Water's results show little change over the reporting period except for a drop in 1999-2000. Complaints have also remained relatively consistent over the reporting period for the other service providers.

Connect time to telephone operator

Table 23 reports on the mean time (in seconds) a telephone customer has to wait to be connected to an operator. It should be noted that this benchmark relates to the business as a whole and not just to wastewater services. The available data is, however, significantly incomplete.

Table 23: Average connect time to telephone operator

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Sydney Water			n.a.	n.a.	12.8	15.8
Water Corporation			15.0	13.8	15.6	18.6
Brisbane Water			n.a.	n.a.	n.a.	21.0
SA Water			19.8	19.2	18.0	27.0
Average all companies*			17.4	72.0	29.2	32.3
Melbourne Consolidated			n.a.	n.a.	43.0	49.0
Power and Water			n.a.	n.a.	n.a.	n.a.
ACTEW Corporation			n.a.	n.a.	n.a.	n.a.

* *Average of all 27 service providers*

SA Water and Water Corporation are the only companies to report for all four years.

SA Water's results, which show a gradual improvement until last year, are in the median range of the selected companies. Until last year, the results were close to the best and marginally better than the average for all WSAA companies.

It is noted that SA Water has reported an increase in call traffic of 15% in 2002-03, due in large part to water restrictions, the introduction of the River Murray Levy and other initiatives addressing the drought (eg rebates for various water efficient

appliances). Even with this effect, service performance was better than the average for all other water and wastewater service providers.

Notwithstanding the slippage in call response times, SA Water's call centre is generally considered to have performed strongly for most of 2002-03, according to a survey conducted by Customer Service Benchmarking Australia Pty Ltd (SA Water, 2003, p 26). The survey reported on a range of indicators, with approximately 28 utilities across Australia taking part.

Water recycled

Another measure of efficiency in the provision of wastewater services is included in Table 24, which provides information about the amount (as a percentage) of all wastewater collected that is treated and actually used (ie recycled) by either the water business itself or a business supplied by the water business. This is also a significant measure of environmental performance.

Table 24: Percent of water recycled

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
SA Water	4.9	4.4	11.4	15.9	15.1	19.2
Melbourne Consolidated	n.a.	1.5	2.0	2.0	5.7	10.9
ACTEW Corporation	4.0	5.0	4.6	4.6	5.5	7.3
Water Corporation	0.8	3.2	3.2	2.9	3.8	4.1
Brisbane Water	0.4	0.4	0.7	2.6	5.0	3.5
Power and Water	4.0	2.4	2.2	4.5	3.9	3.5
Sydney Water	2.4	2.4	2.0	1.9	2.2	2.6
Average all companies*	1.2	1.1	1.4	1.9	1.9	2.4

* *Average of all 27 service providers*

For the last four years SA Water was the best performer of the selected companies and better than the average for all WSAA companies. Of all other WSAA companies only Central Gippsland Water and Goulburn Valley Water recycle a greater proportion of their wastewater than does SA Water.

SA Water's reported results show a continuing increase in the percentage of water recycled for the six years. Of the other providers, only Melbourne Consolidated has reported a significant improvement in its performance, while a number of the other providers have reported minor improvements.

Bio-solids reused

Table 25 provides information on the level of reuse of bio-solids, a major product of wastewater treatment. Bio-solids are the stabilised organic solids derived from wastewater treatment processes. Reuse involves managing bio-solids safely and sustainably to beneficially use their nutrient, energy or other values. The dry weight of bio-solids reused may be greater than the dry weight of bio-solids produced if the business is also reusing existing stockpiles. This is both a significant efficiency and environmental performance measure.

Table 25: Percent of bio-solids reused

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
SA Water	48	67	168	154	158	144
ACTEW Corporation	100	100	100	100	100	100
Sydney Water	99	99	97	99	99	100
Brisbane Water	7	40	40	72	100	100
Water Corporation	100	91	71	70	86	98
Melbourne Water	18	14	25	8	6	75
Power and Water	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

SA Water has reported an increased level of bio-solids reuse from 1999-2000 when it began to reuse from its stockpile. Melbourne Water and Brisbane Water also improved their performance over the reporting period, although from a low base.

Three of the selected companies reuse all of their bio-solids. Of all WSAA companies, SA Water is the only company that reuses product from its stockpile.

Efficient business costs

Operational expenditure comparisons

Of particular concern to the NCC was that the:

Water Services Association of Australia data for the period 1995-96 to 2000-01 show that SA Water's per unit operating costs appear to have remained about constant in real terms, unlike per unit operating costs in many other comparable urban water businesses, which declined over the same period (National Competition Council, 2003b, p 6.3).

WSAAfacts also reports on the cost of providing wastewater services. Again, these benchmarks are to be used with caution when comparing different providers, due to the differences between service providers (eg climate and geographic conditions), and the different markets and legislative environments applicable to each provider.

Table 26 details the operating cost per property for wastewater services in real dollars, for metropolitan service providers.

Table 26: Operating cost per property for wastewater services (in real dollars)⁸

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Melbourne Cons'd	143.14	135.96	117.62	110.28	106.93	100.07
SA Water	108.81	106.32	126.44	114.03	118.44	120.02
Water Corporation	160.85	150.02	153.20	141.25	139.95	143.33
Brisbane Water	125.82	140.64	148.94	132.55	176.84	186.31
Average all companies*	208.17	187.52	193.41	181.46	189.86	211.23
ACTEW	353.94	284.01	232.68	236.18	249.70	254.91
Sydney Water		271.81	263.23	233.21	270.92	260.69
Power and Water	383.72	340.85	542.03	311.36	270.86	335.16

* *Average of all 27 service providers*

Table 26 indicates that although SA Water's operating costs have fluctuated over the reporting period, they have trended upwards. The increase in operational costs is largely due to SA Water meeting higher environmental standards imposed by the EPA via Environmental Improvement Programs (EIPs). Table 3 list the projects that have resulted from this change and includes the commissioning of the Bolivar dissolved air flotation and filtration plant and associated sludge dewatering process, the Queensbury diversion, and the Christies Beach and Glenelg EIPs. Over the past 5 years, the 11% real cost increase in metropolitan wastewater fixed operating costs coincides with an 11% increase in the wastewater asset base.

As a result of the implementation of those environment projects, SA Water has reported substantial increases in:

- treatment of wastewater to a tertiary level (0% in 1999-2000 to 81% in 2002-03 and 100% by 2005-06) as reported in Table 21
- recycled water (4.9% in 1997-98 to 19.2% in 2002-03) as reported in Table 24
- reuse of bio-solids (48% in 1997-98 to 144% in 2002-03) as reported in Table 25.

Other factors affecting the operational costs of SA Water include:

- an increase in electricity contract prices paid from 2001-02 in the order of 20% which, to a certain extent have since reduced; an increase in the volume of electricity consumed in 2001-02 due to the Bolivar odour plant, which uses a significant amount of electricity, becoming operational in 2001 with its first full year of operations in 2001-02
- a review of SA Water's capitalisation policy in 2000-01 which resulted in costs previously capitalised being expensed.

⁸ WSAAfacts Indicator Guidelines require that operating cost should, where possible or material, include the following: charges for bulk treatment/transfer of wastewater; items expensed from work in progress; salaries and wages and associated overheads; competitive neutral adjustments; materials/chemicals/energy; contracts; accommodation; and all other operating costs that would normally be reported. Operating costs should exclude all non-core business operating costs.

Table 26 also indicates that from 2000-01 to 2002-03 only Melbourne Consolidated has decreased its operating cost per property. SA Water had the second lowest percentage increase behind Western Australia's Water Corporation, even after significantly increasing the level of wastewater treated to a tertiary level.

Table 27 provides information on total cost per property in real dollars, for metropolitan service providers.

Table 27: Total cost per property for wastewater supply services (in real dollars)⁹

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
SA Water	366.07	354.85	376.84	351.89	364.84	355.53
Melbourne Cons'd	510.03	495.64	455.73	428.85	421.28	395.05
Brisbane Water	565.74	425.29	435.5	408.72	443.14	429.47
ACTEW	619.40	530.46	472.33	458.97	450.83	449.37
Average all companies*	554.62	522.46	522.14	478.62	474.07	477.74
Power and Water	636.94	705.64	773.15	631.32	486.62	545.21
Sydney Water		527.43	525.5	491.21	561.12	579.78
Water Corporation	629.54	617.92	615.91	579.36	590.67	589.75

* Average of all 27 service providers

Table 27 indicates that all providers, except Sydney Water, have shown a decrease in total costs per property from 1997-98 to 2002-03.

Country areas performance comparisons

For the three years up to 2001, WSAA and then the Australian Water Association produced a similar report to *WSAAfacts*, which covered country service providers (commonly referred to as non-major urban), with at least 10,000 but less than 50,000 connected properties.

The report covered 71 mid-sized water utilities in each state and territory except the ACT (Australian Water Association, 2001).

This report also promoted the use of the data to analyse trends over time for a specific utility. Like *WSAAfacts* it also cautions against the use of inter-utility comparisons due to:

substantially different operating environments and underlying cost drivers (Australian Water Association, 2001, p 4).

The differences in operating environments for country operations are more pronounced than in metropolitan areas. Any comparisons between country service providers are of very limited benefit.

Bearing in mind these limitations, SA Water provided data for three regional areas, Whyalla, Outer Adelaide (Barossa and Fleurieu) and Mount Gambier. Of the 56

⁹ *WSAAfacts* indicator guidelines states that total cost include: operating costs; depreciation; and 4% return on written down replacement cost of assets.

utilities/systems benchmarked, the operating cost per property for wastewater services in Whyalla and Mount Gambier was ranked the lowest and second lowest per property in 2001, while Outer Adelaide was ranked 21st.

As the last report contained data for only four years, and the most recent report is three years old, it is not possible to obtain any trends or reach any conclusions from this specific data.