

WATER INDUSTRY ACT 2012 (SECTION 35)

PRICING ORDER

FOR THE REGULATORY PERIOD 1 JULY 2016 – 30 JUNE 2020

PREAMBLE

This pricing order has been prepared in order to provide information that would assist SA Water to prepare its Regulatory Business Proposal and the Essential Services Commission of South Australia (ESCOSA) to prepare its Final Framework and Approach in July 2014 and its Draft Determination for SA Water's drinking water and sewerage services for the second regulatory period.

A further pricing order may be issued to vary this pricing order prior to ESCOSA issuing its Final Determination. These variations may be required in response to matters raised by ESCOSA in its Draft Determination or its Final Inquiry Report on water pricing reform once the South Australian Government has considered these matters and developed an appropriate response.

Pursuant to section 35(4) of the *Water Industry Act 2012 (the Act)*, the Treasurer hereby issues the following pricing order (**this Order**):

1. INTERPRETATION

1.1 Where a term used in this Order is defined in the Act, it has the meaning given in the Act.

1.2 In this Order, unless the contrary intention appears:

determination means a determination of the Commission under section 35 of the Act and Part 3 of the *Essential Services Commission Act 2002 (the ESC Act)* made in respect of retail services;

drinking water retail service means a retail service constituted by the sale and supply of water of a quality fit for human consumption;

Initial Pricing Order means the order issued by the Treasurer pursuant to section 35(4) of the Act dated 24 September 2012;

NWI Pricing Principles means the National Water Initiative Pricing Principles 2010 agreed by Australian governments as the basis for setting water prices / charges in their jurisdictions, as amended or replaced from time to time;

NWI Principles for the Recovery of Capital Expenditure means the Principles for the recovery of capital expenditure which form part of the NWI Pricing Principles, as amended or replaced from time to time;

NWI Principles for Urban Water Tariffs means the Principles for urban water tariffs which form part of the NWI Pricing Principles, as amended or replaced from time to time;

second regulatory period means the four year period commencing 1 July 2016;

sewerage retail service means the sale and supply of sewerage services for the removal of sewage.

2. APPLICATION

- 2.1 This Order is to take effect from the date that it is signed.
- 2.2 This Order is to apply to a determination for the second regulatory period in respect of drinking water retail services and sewerage retail services provided by SA Water, and as such applies in conjunction with the Initial Pricing Order.
- 2.3 Clause 3 of the Initial Pricing Order is varied to include a new subclause 3.3 as follows:

“3.3 In the case of a determination to which any further order made pursuant to section 35(4) of the Act applies, clause 3.1 applies subject to that further order.”
- 2.4 For the avoidance of doubt, the Commission must ensure that any draft of a determination to which this Order will apply and which is provided to any person in accordance with section 26(1) of the ESC Act is prepared consistently with, and complies with, all applicable requirements of the Initial Pricing Order and this Order.

3. SA WATER DRINKING WATER AND SEWERAGE RETAIL SERVICES

The Commission must adopt or apply the following parameters, principles or factors when making a determination to which this Order applies:

- 3.1 The second regulatory period must be adopted as part of the determination.
- 3.2 The determination must only determine the total revenue which may be derived from the provision of drinking water retail services and sewerage retail services.
- 3.3 The determination must apply a separate total revenue control for drinking water retail services and sewerage retail services respectively.
- 3.4 The determination must not establish, or require the establishment of, a revenue control for a drinking water retail service or a sewerage retail service based on customer class or location.
- 3.5 The determination must include a mechanism which allows for the adjustment of the total revenue which may be derived where the Commission determines there to be a relevant and material variation between forecast and actual rates of water consumption or sewerage connections. The adjustment mechanism must operate on the basis of efficient costs associated with variations in demand, and so as to promote a stable price path for retail services.
- 3.6 The determination must include a mechanism which allows for the adjustment of the total revenue which may be derived where the Commission determines appropriate as a result of the occurrence of an event beyond the control of SA Water which has or will have a material impact on the cost of provision of a drinking water retail service or a sewerage retail service during the regulatory period. The adjustment mechanism must operate on the basis of efficient costs attributable to the event, and so as to promote a stable price path for retail services.
- 3.7 The determination must adopt or apply the NWI Principles for the Recovery of Capital Expenditure, subject to the following:

- 3.7.1 the determination must adopt or apply the value of \$7.77 billion as the regulated asset base (**RAB**) as at 1 July 2013 (in December 2012 dollars) in relation to assets used by SA Water in the provision of drinking water retail services;
 - 3.7.2 the determination must adopt or apply the value of \$3.58 billion as the RAB as at 1 July 2013 (in December 2012 dollars) in relation to assets used by SA Water in the provision of sewerage retail services;
 - 3.7.3 the determination must allow SA Water to recover the efficient cost of assets acquired (or to be acquired) after 1 July 2013 which are required to support activities that SA Water is required to provide in accordance with a direction under section 6 of the *Public Corporations Act 1993*;
 - 3.7.4 for the avoidance of doubt, the Commission must only adopt or apply Principle 6 of the NWI Principles for the Recovery of Capital Expenditure in relation to contributed assets that SA Water acquires after 1 July 2013.
- 3.8 The determination must adopt or apply Principle 1 of the NWI Principles for Urban Water Tariffs, subject to the following:
- 3.8.1 in relation to costs relating to externalities (including water planning and management), the determination must only allow SA Water to recover such costs as are attributable to and payable by SA Water in accordance with the law, including a direction under section 6 of the *Public Corporations Act 1993*;
 - 3.8.2 the determination must allow SA Water to recover such costs (less any relevant contributions to such costs that it receives) that are attributable to activities that SA Water is required to provide in accordance with a direction under section 6 of the *Public Corporations Act 1993*, and are either:
 - (i) specified in the relevant direction, or if not so specified,
 - (ii) determined by the Commission to be efficient.

4. PREPARATION AND PRESENTATION

- 4.1 The determination must be prepared and presented consistently with "*the Regulated Asset Base (RAB), or building blocks approach*" as described in the NWI Principles for the Recovery of Capital Expenditure (subject to clause 3.7 above).
- 4.2 In particular, the determination must identify the assumptions on which it is based, including the method of calculation of, and monetary value assigned to, each of the following parameters for the purposes of the determination:
 - 4.2.1 the RAB, where the values set out in clauses 3.7.1 or 3.7.2 (as appropriate) are to be rolled forward consistently with Principle 5 of the NWI Principles for the Recovery of Capital Expenditure;
 - 4.2.2 the rate of return on the RAB (which should be consistent with Principle 1 of the NWI Principles for the Recovery of Capital Expenditure);

- 4.2.3 any allowance for working capital (i.e. any allowance considered appropriate to adjust for the lead or lag in cash flow as a result of incurring costs in providing services and receiving payment for those services);
 - 4.2.4 the rate of return of capital (depreciation), including its method of calculation, and any adopted classifications of, or remaining life attributable to, the regulatory assets on which it is based;
 - 4.2.5 operating expenditure (which should include efficient operational, maintenance and administrative costs);
 - 4.2.6 the costs of externalities, consistent with clause 3.8.1; and
 - 4.2.7 any allowance for tax paid (which should be identified separately from the rate of return on the RAB where the weighted average cost of capital (WACC) is calculated on a post-tax basis).
- 4.3 Where the Commission anticipates a likely material variation in either the method of calculation of, or monetary value assigned to, any of the parameters identified in clause 4.2 as between any draft of a determination to which this Order will apply in accordance with clause 2.4, and the relevant final determination, then the draft of the determination must identify, in relation to any such anticipated likely material variation:
- 4.3.1 the relevant parameter;
 - 4.3.2 the likely cause or causes;
 - 4.3.3 where the anticipated variation is to the monetary value assigned to a parameter, the likely magnitude and direction.
- 4.4 The Commission must prepare and provide to the Treasurer, on or before 31 December 2014, a separate report setting out the Commission's proposed approach to the calculation of the rate of return on the RAB (which should be consistent with Principle 1 of the NWI Principles for the Recovery of Capital Expenditure).

5. VARIATION

This Order may be varied by a subsequent pricing order issued under section 35 of the Act.



Jay Weatherill
PREMIER
A/TREASURER

v 15 / 2014