

Appendix F

Pricing

What Our Plan 2020-24 means for customer bills

Affordable bills are important to our customers and we are committed to reducing our costs to keep prices as low and stable over time as possible.

How our bills compare

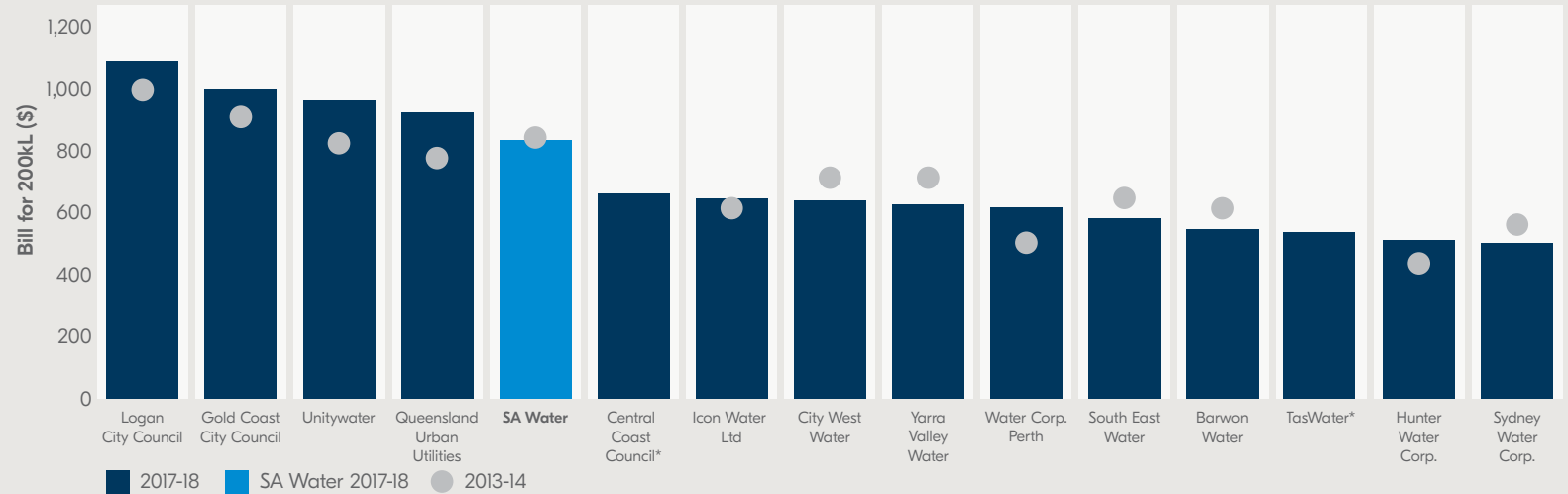
Our combined water and sewerage bills for residential customers are mid-range (based on a metropolitan customer using 200kL of water) when compared to 14 peer utilities. Mindful of the different services we provide, it is useful to compare bills for water and sewerage services separately.

Water bills

Residential water bills have moved favourably compared to our peer group of interstate utilities. Figure F.1 shows our residential water bills have moved from third highest in 2013-14 down to fifth in 2017-18. Our water bills have remained relatively stable over this period.

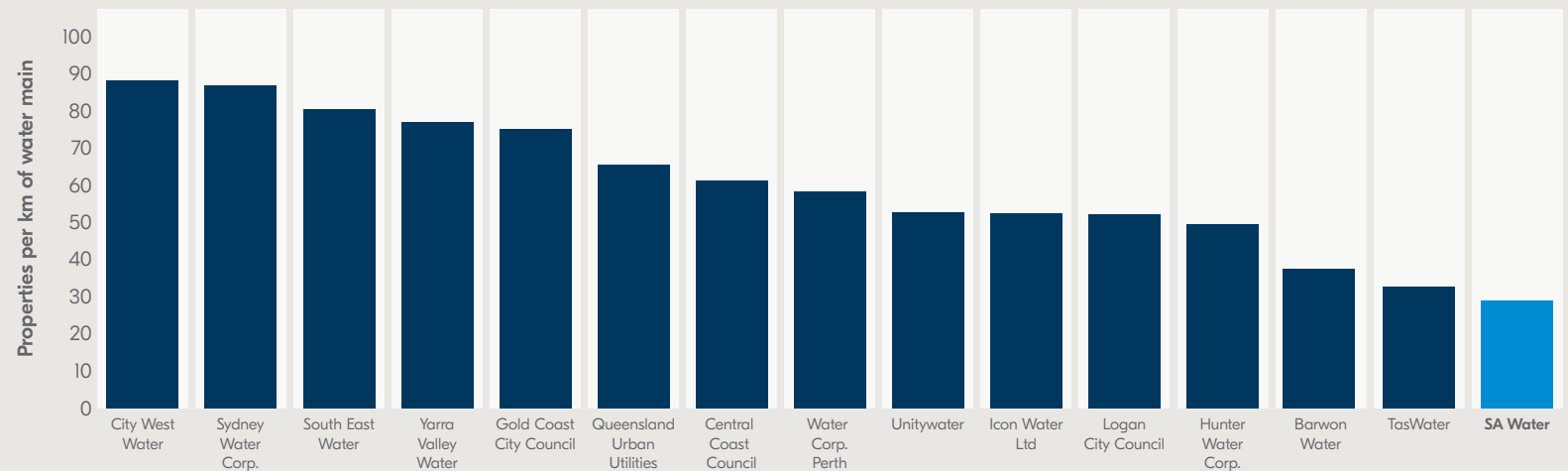
Utilities with more connections per kilometre of water main tend to have lower prices and therefore lower bills as they can recover costs from a wider customer base. Due to the geographical spread of our customers, we serve the lowest number of properties per kilometre of water main compared to peer utilities (Figure F.2). This means our cost of supply is spread across a smaller number of customers.

Figure F.1: Interstate water bill comparison of utilities with 100,000+ connections, for water consumption of 200 kL¹



* Did not report on this measure in 2013-14

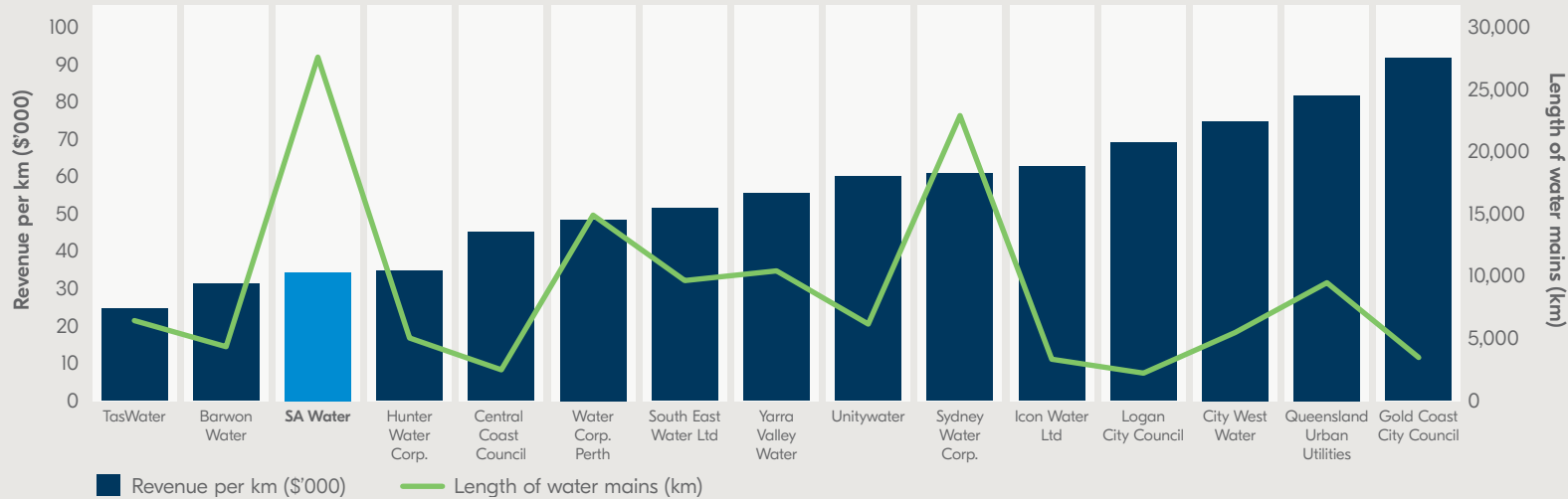
Figure F.2: Properties serviced per kilometre of water main by utility, 2017-18²



1 Derived from Bureau of Meteorology National performance report 2017-18: urban water utilities, Part B dataset, released February 2019.

2 Derived from Bureau of Meteorology National performance report 2017-18: urban water utilities, Part B dataset, released February 2019.

Figure F.3: Revenue per kilometre of water main by utility, 2017-18³



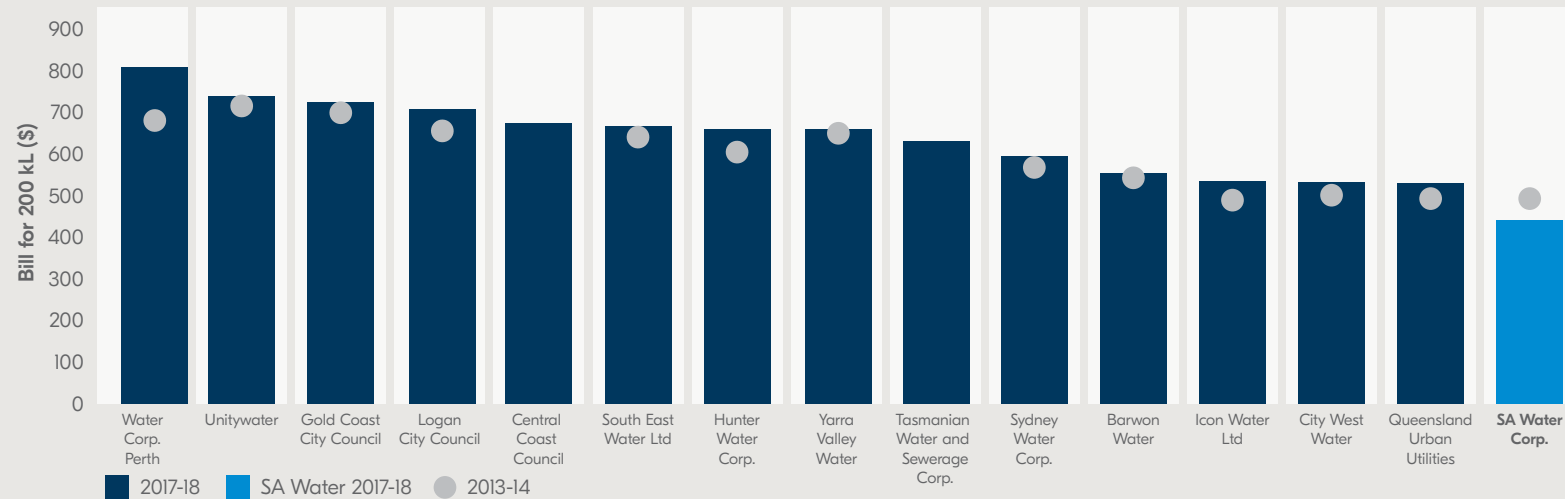
With the longest network compared to our peer interstate utilities (Figure F.3)⁵, the revenue we earn per kilometre of water main is at the low end of comparable utilities.

Our investment to provide water services across the state and the low density of customers we serve are significant factors contributing to our water bills. Taking this context into account our water bills compare favourably to our interstate peers.

Sewerage bills

Our average residential sewerage bills continue to be the lowest compared to interstate utilities as shown in Figure F.4, reflecting our strong drive for efficiency. We are the only utility from our interstate peer group to reduce prices since 2013-14.

Figure F.4: Interstate sewerage bill comparison of utilities with 100,000+ connections⁴



3 Derived from Bureau of Meteorology National performance report 2017-18: urban water utilities, Part B dataset, released February 2019.
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Average price change

The proposals in *Our Plan 2020-24* (Our Plan), combined with customer and demand growth, deliver price reductions for our water and sewerage customers in 2020-21.

Table F.1 shows water prices will reduce on average by 1.8 per cent and sewerage prices will reduce on average by 3.2 per cent (equivalent to real decreases of 3.3 per cent and 4.7 per cent respectively). By passing on price reductions in 2020-21, our customers will have a low and stable price path through the regulatory period. Using this approach, prices for the remaining three years would rise in line with inflation⁶.

Figure F.5 demonstrates that by 2023-24, water and sewerage prices will be lower than they were when economic regulation started in 2013. When inflation is considered, this represents real reductions of 18 per cent for water prices and 22 per cent for sewerage prices since 2013.

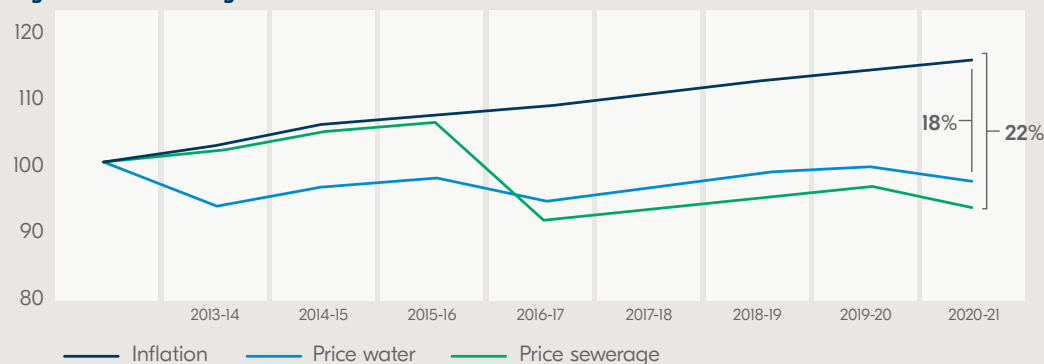
Table F.1: Change in nominal prices over time*

	2020-24 regulatory period				Change over regulatory period*	Change since the start of economic regulation to 2020-21**
	2020-21	2021-22	2022-23	2023-24		
Inflation	1.5%	1.5%	1.5%	1.5%	6.1%	15.8%
Water price	(1.8%)	1.5%	1.5%	1.5%	2.7%	(2.4%)
Sewerage price	(3.2%)	1.5%	1.5%	1.5%	1.2%	(6.7%)

* Based on forecast inflation of 1.5 per cent consistent with regulatory rate of return.

** Based on actual inflation for 2013-14 to 2019-20 (March to March, ABS, CPI: All groups – weighted average eight capital cities, 6401.0).

Figure F.5: Price change over time



⁶ Subject to rounding.

Indicative customer impacts

Our tariff structure has evolved over time in response to a broad range of environmental, social, financial and economic policy considerations. A decision for the South Australian Government is whether to apply price changes evenly across existing tariff structures, or in a targeted way to stimulate statewide economic development, balance short- and long-term affordability outcomes, and provide simpler price structures for customers.

The government continues to consider its preference for passing price reductions onto tariffs in a way that balances various priorities. This choice, along with ESCOSA's final determination, the impact of financial market movements, and implementation of recommendations from the pricing inquiry, may alter the bill impacts presented within Our Plan.

To demonstrate changes for our customers from the proposal in Our Plan, we have assumed tariff structures remain unchanged and that revenue reductions are applied against the second and third tier water use tariffs and evenly across property rates for sewerage charges. Based on the proposal in Our Plan, this would see the second and third water use tariffs reduce by 14.2 cents per kilolitre and property rates for sewerage charges decrease by 3.9 per cent.

Applying price reductions against the second and third tier water use tariffs helps our residential customers, particularly those who have large families and are least able to avoid water use at these levels. It also reduces the cost of doing business in South Australia and promotes economic development.

Applying reductions against property rates for sewerage charges moves these charges closer to cost reflective levels. Customers on the minimum charge would experience a stable sewerage bill.

The average residential metropolitan customer will receive a combined water and sewerage bill reduction of \$26 per annum in 2020-21 followed by inflationary increases in the remaining three years. Average combined bill impacts for other customers are shown in Table F.2.

Bill impacts vary across customer groups and from customer to customer, depending on their water use and property value. Indicative bill impacts for a range of water customers are shown in Table F.3 to F.5.

Table F.2: Combined bill impacts for average customers (nominal \$)

Customer Characteristics			Combined Bill		
Region	Water Use	Property Value	2019-20	2020-21	Reduction
Average Residential*					
Metropolitan	180 kL	\$467,000	\$1,258	\$1,232	(\$26)
Country	180 kL	\$251,000	\$1,169	\$1,146	(\$23)
Average Non-Residential*					
Metropolitan	1,680 kL	\$1,976,000	\$8,492	\$8,167	(\$325)
Country	1,680 kL	\$966,000	\$7,831	\$7,532	(\$299)
Average Commercial*					
Metropolitan	409 kL	\$1,692,000	\$4,687	\$4,549	(\$138)
Country	409 kL	\$525,000	\$2,740	\$2,647	(\$94)

*Residential properties include houses, maisonettes, home units, retirement homes, flats and strata/community title residences and vacant land. Commercial properties include retail trade and wholesale trade. Retail trade includes shops, shopping centres, department stores and general stores. Wholesale trade includes distributors and warehouses where goods are purchased and stored in large quantities, then on-sold to retailers or sellers.

Non-residential properties are properties not defined as either residential or commercial land.

* Sewerage bills are based on 2018-19 property values and 2018-19 property rates inflated by 1.3 per cent (March quarter 2019 CPI). Assuming CPI of 1.5 per cent for the third regulatory period.

Table F.3: Indicative water bills (nominal \$)*

	2019-20	2020-21	2021-22	2022-23	2023-24
Residential					
Low water use—120 kL per year	\$589	\$589	\$597	\$606	\$615
Average water use —180 kL per year	\$793	\$785	\$797	\$809	\$821
High water use—412 kL per year	\$1,585	\$1,546	\$1,568	\$1,592	\$1,615
Very high water use—637 kL per year	\$2,387	\$2,316	\$2,351	\$2,385	\$2,421
Non-residential					
Low water use—34 kL per year	\$418	\$413	\$419	\$426	\$432
Average water use—1,680 kL per year	\$6,035	\$5,807	\$5,892	\$5,979	\$6,068
High water use—5,884 kL per year	\$20,384	\$19,583	\$19,871	\$20,163	\$20,462
Very high water use—21,389 kL per year	\$73,302	\$70,393	\$71,425	\$72,477	\$73,551
Commercial (metropolitan)*					
Low water use/property value—30 kL per year / \$385,000	\$404	\$400	\$406	\$412	\$418
Average water use/property value—409 kL per year / \$1,692,000	\$2,584	\$2,528	\$2,565	\$2,603	\$2,642
High water use/property value—1,456 kL per year / \$4,150,000	\$7,883	\$7,685	\$7,798	\$7,913	\$8,030
Very high water use/property value—5,953 kL per year / \$17,525,000	\$32,620	\$31,811	\$32,278	\$32,755	\$33,240
Commercial (country)*					
Low water use/property value—30 kL per year / \$160,000	\$404	\$400	\$406	\$412	\$418
Average water use/property value—409 kL per year / \$525,000	\$1,764	\$1,709	\$1,734	\$1,760	\$1,786
High water use/property value—1,456 kL per year / \$1,350,000	\$5,917	\$5,719	\$5,803	\$5,889	\$5,976
Very high water use/property value—5,953 kL per year / \$3,625,000	\$22,862	\$22,053	\$22,376	\$22,706	\$23,042

*Based on 2018-19 property values and 2018-19 commercial property rate inflated by 1.3 per cent (March quarter 2019 CPI).

Table F.4: Indicative sewerage bills for metropolitan customers (nominal \$)*

	2019-20	2020-21	2021-22	2022-23	2023-24
Residential					
Minimum charge	\$323	\$323	\$328	\$333	\$338
Average property value (\$467,000)	\$465	\$446	\$453	\$460	\$467
High property value (\$930,000)	\$925	\$889	\$902	\$916	\$929
Very high property value (\$1,550,000)	\$1,542	\$1,482	\$1,504	\$1,526	\$1,549
Non-residential					
Low property value (\$300,000)	\$373	\$358	\$364	\$369	\$374
Average property value (\$1,976,000)	\$2,456	\$2,360	\$2,395	\$2,430	\$2,466
High property value (\$6,350,000)	\$7,893	\$7,584	\$7,696	\$7,810	\$7,925
Very high property value (\$18,600,000)	\$23,120	\$22,213	\$22,542	\$22,876	\$23,214
Commercial					
Low property value (\$385,000)	\$479	\$460	\$467	\$474	\$481
Average property value (\$1,692,000)	\$2,103	\$2,021	\$2,051	\$2,081	\$2,112
High property value (\$4,150,000)	\$5,158	\$4,956	\$5,030	\$5,104	\$5,180
Very high property value (\$17,525,000)	\$21,784	\$20,929	\$21,239	\$21,553	\$21,872

* Sewerage bills are based on 2018-19 property values and 2018-19 property rates inflated by 1.3 per cent (March quarter 2019 CPI). Assuming CPI of 1.5 per cent for the third regulatory period.

Table F.5: Indicative sewerage bills for country customers (nominal \$)*

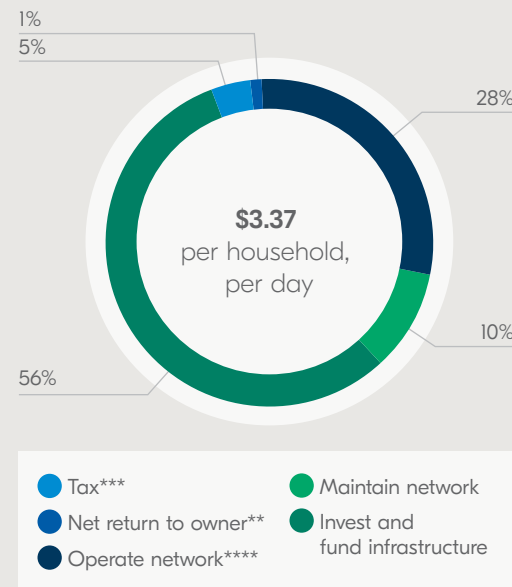
	2019-20	2020-21	2021-22	2022-23	2023-24
Residential					
Minimum charge	\$323	\$323	\$328	\$333	\$338
Average property value (\$251,000)	\$376	\$361	\$366	\$372	\$377
High property value (\$560,000)	\$838	\$805	\$817	\$829	\$842
Very high property value (\$920,000)	\$1,377	\$1,323	\$1,343	\$1,363	\$1,383
Non-residential					
Low property value (\$205,000)	\$381	\$366	\$372	\$377	\$383
Average property value (\$966,000)	\$1,796	\$1,725	\$1,751	\$1,777	\$1,803
High property value (\$3,800,000)	\$7,064	\$6,787	\$6,888	\$6,990	\$7,093
Very high property value (\$8,750,000)	\$16,266	\$15,628	\$15,860	\$16,094	\$16,333
Commercial					
Low property value (\$160,000)	\$323	\$323	\$328	\$333	\$338
Average property value (\$525,000)	\$976	\$938	\$952	\$966	\$980
High property value (\$1,350,000)	\$2,510	\$2,411	\$2,447	\$2,483	\$2,520
Very high property value (\$3,625,000)	\$6,739	\$6,475	\$6,570	\$6,668	\$6,766

* Sewerage bills are based on 2018-19 property values and 2018-19 property rates inflated by 1.3 per cent (March quarter 2019 CPI). Assuming CPI of 1.5 per cent for the third regulatory period.

What this pays for

Our Plan represents value for money for our customers. The majority of revenue received from customers through their bills is invested directly into providing water and sewerage services (Figure F.6). The government receives only marginal returns.

Figure F.6: What customer bills pay for, combined water and sewerage



* Based on 2020-21 bill of an average residential metropolitan customer using 180 kL of water per year and property valued at \$467,000 (nominal \$).

** Net return to owner is net of Community Service Obligation payments from the South Australian government.

*** Tax is based on accounting values as paid to the South Australian Government as a tax equivalent.

**** Operate network is net of recycled water revenue.

Excluded services

Excluded services are those we provide to individuals or small classes of customers including:

- standard and non-standard connection services (including developer services)
- trade waste services
- non-domestic hauled waste services
- easement extinguishment and encumbrance services
- meter services
- network analysis and audit services
- hydrant and fire plug services
- recycled water services (to an extent).

These services are funded by the customers who benefit from them, not by the wider customer base and for this reason the costs and revenues from these services are not included in Our Plan.

Excluded services are priced in line with the National Water initiative (NWI) Pricing Principles and subject to ESCOSA's price monitoring and dispute resolution processes. Each year we publish fees and charges for excluded services on our website and our pricing policy statements to demonstrate our compliance with all relevant pricing principles.

A key NWI Pricing Principle is that fees and charges reflect the efficient cost of providing the relevant service. We have been on a path to full cost recovery for excluded services during the 2016-20 regulatory period with most now reflecting efficient cost. Prior to the beginning of each regulatory period we review the cost to provide excluded services. This work will inform the price path for excluded services for the 2020-24 regulatory period and where necessary we will communicate and engage with relevant customer groups about the transition path.

ESCOSA guidance for this determination requires us to demonstrate how we engage with customers about the type of excluded services they may want from us in the future.

Customer satisfaction with excluded services is monitored. We engage with customers when feedback indicates they are dissatisfied with services or service levels, or when we identify opportunities to introduce new excluded services or to make changes to existing services.

Our ongoing customer research provides insights into a range of customer groups and services we provide. Targeted qualitative and quantitative research is then used to further understand areas of concern or opportunity for our customers.

Two recent examples of customer engagement and research for excluded services are:

- 1 Smart meters – extensive research and engagement with customers has helped us understand how smart meters can help our customers and improve the service they receive. Customer support for various potential service offerings of smart meters, as well as their willingness to pay at different price points, have also been tested.
- 2 Connections and minor land development – inconsistent levels of customer satisfaction were identified through our customer research. To understand this further, we followed the connection journey of 35 customers for a number of months. This gave us a deep understanding of what was working well, and what could be improved by working together to enhance their experience and the service we offer.

In both of these examples, a human-centre design approach, including customer journey mapping and future state service blueprints, were used to design proposed improved customer experiences and outcomes. These improvements are currently undergoing further assessment to test viability for implementation.