SA Water

SOUTH AUSTRALIAN
WATER CORPORATION

SA Water House
250 Victoria Square,
Adelaide South Australia 5000

GPO Box 1751
Adelaide SA 5001

Telephone +61 8 8204 1000

ABN 69 336 525 019

28 August 2009

Mr Chris Pattas
General Manager
Network Regulation South Branch
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3000

Dear Mr Pattas

Re: SA Water submission on ETSA Utilities Regulatory Proposal

Thank you for the opportunity to comment on the regulatory proposal submitted by ETSA Utilities for the 2010-2015 period.

SA Water provides essential water and wastewater services to the State of South Australia. The delivery of our services requires significant use of electricity; SA Water manages over 1500 electricity connections.

Electricity charges represent a major cost to SA Water, and significant effort is employed to manage our energy costs to minimise the impact to our customers. Regulated pass-through costs are a significant and uncontrollable element of SA Water's energy charges.

SA Water has reviewed the regulatory proposal submitted by ETSA Utilities and is concerned at the level of cost increase proposed to be passed through to customers. SA Water requests the AER undertake a detailed review of the following concerns and issues SA Water has identified:

<u>Capital Expenditure Forecasts</u>

ETSA Utilities has proposed significant increases to capital expenditure in the 2010-2015 period justified on the basis of "*aging assets*" amongst other rationale. SA Water is concerned that ETSA Utilities will not be able to prudently deliver the forecast net capital program based on their previous inability to satisfy the ESCoSA efficient benchmark of net capital expenditure in the current regulatory period.

Table 6.3 highlights that in the current regulatory period ETSA Utilities deferred capital expenditure to 2009/2010 and net capital expenditure for the regulatory period is forecast to fall 3% short of the efficient benchmark determined by ESCoSA. ETSA's increased gross capital expenditure (attributable to higher contributions received than forecast) appears to provide the rationale for deferred net capital expenditure.

SA Water is concerned that in the current regulatory period significant customer contributions were made by SA Water in addition to tariff contributions and the benefits of a more robust

Government
of South Australia

distribution system from the efficient utilisation of ETSA Utilities net capital expenditure have not been fully realised.

Small Customer Metering

SA Water has a significant number (over 1400) of small sites impacted by decisions in relation to small customer metering. Due to security concerns, SA Water has ongoing issues in relation to maintaining site security and providing access for metering services.

SA Water is keen to explore metering options for small sites; however current pricing mechanisms do not support a business case for SA Water to select alternate metering solutions. A high number of companies offer alternate metering options and SA Water supports the AER's proposal to treat "*variable*" standard small customer metering services as alternative control services to remove access barriers to these services.

Carbon Pollution Reduction Scheme

A high level of uncertainty surrounds the introduction of the CPRS. SA Water contends that consideration of the CPRS on sales forecasts is inappropriate at this time.

Retailer Failure Event Pass Through

The regulatory proposal includes "*Retailer failure event*" as a mechanism to retrieve funds owed to ETSA Utilities in the case of a retailer being placed in administration, liquidation or otherwise having their licence revoked.

SA Water strongly disagrees with the inclusion of this nominated pass through on the basis that:

- Mechanisms are available to ETSA Utilities to protect against this risk;
- Recovery of the debt is from an identifiable class of customers (i.e. customer contracted with the relevant retailer) and debt recovery should be pursued against the identifiable customer class.
- The pass through does not incentivise ETSA Utilities to obtain appropriate protection.

Materiality Threshold

SA Water supports the introduction of mechanisms to assist the AER in decision making, including the materiality threshold. The use of a materiality threshold will provide customers and ETSA Utilities with a fair and objective decision.

SA Water considers ETSA Utilities suggestion that a subjective test should remain to avoid "*incentives to inflate costs or undertake a project with less than optimum efficiency so that a 'bright line' materiality threshold is passed*" is highly inappropriate.

Economic Assumptions

Whilst SA Water has not had the opportunity to review detailed calculations and forecasts undertaken by ETSA Utilities, the text surrounding treatment of economic assumptions raises concerns that the impact of recent economic conditions on the South Australian market have not been adequately provided for in forecasting and modelling.

Operational Expenditure Forecasts

ETSA Utilities has forecast significant increases in the operational expenditure forecasts for the regulatory period. SA Water accepts an increase in operational expenditure will be necessary to deliver the operational expenditure objectives, however the magnitude of the increases appear to be excessive in the current conditions. In particular it is not prudent to forecast material increases in labour and materials in a recovering economic climate.

We thank you for this opportunity and trust our comments will assist the Australian Energy Regulatory to make their distribution determination.

Yours sincerely

Anne Howe
CHIEF EXECUTIVE