

Salisbury Water

2015-16 Pricing Policy Statement



Introduction

The City of Salisbury is a licenced intermediate sized retailer supplying recycled water to residential and non-residential customers within the City of Salisbury.

This Pricing Policy Statement sets out how the City of Salisbury has determined its costs and developed prices for its regulated water retail service.

Background

Economic regulation of retailers of water and sewage services in South Australia was introduced via the Water Industry Act 2012 (SA) to provide mechanisms for the transparent setting of prices within the water industry and to facilitate pricing structures that reflect the true value of services provided by participants in this industry.

The Water Industry Act 2012 (SA) requires the Essential Services Commission of South Australia (ESCOSA) to adopt or apply the National Water Initiative (NWI) pricing principles when making a price determination for retail services. The NWI principles relate to cost recovery, pricing and transparency for water services.

All licenced entities are required to issue a Pricing Policy Statement that demonstrates how the National Water Initiative (NWI) pricing principles have been applied in determining the costs and developing prices for its regulated water retail service.

Description of Regulated Retail Service – Recycled Water Services

The City of Salisbury provides a non-drinking water supply service, known as Salisbury Water.

Salisbury Water is treated to a standard which is satisfactory for its intended use and as a minimum shall meet National Stormwater Guidelines as defined in the Australian Guidelines for Water Recycling: Stormwater Harvesting and Reuse published by the Natural Resource Management Ministerial Council, the Environment Protection and Heritage Council and the National Health and Medical Research Council.

Salisbury Water is recycled stormwater and native groundwater, managed and supplied entirely using Managed Aquifer Recharge (MAR).

Salisbury Water is supplied to residential and non-residential customers, including local industry, schools, sporting and community groups. Salisbury Water is also supplied to Council reserves, sporting fields and parks and gardens providing improved amenities for the broader community.

City of Salisbury Pricing Policy

The City of Salisbury's pricing policy is designed to ultimately achieve full cost recovery and return on capital investment. Within this context, the most important considerations in setting prices relate to the markets willingness to pay, the price of substitutes and pricing certainty for consumers.

As a relatively new provider of water services, the City of Salisbury plans to achieve full cost recovery and return on capital investment through increased sales volume from existing infrastructure rather than increasing prices.

The City of Salisbury has established a separate recycled water business unit (Salisbury Water Business Unit) and has 'ring-fenced' the costs and revenues of its water service so that it can effectively determine its costs and develop associated pricing structures.

Price Movements between 2014/15 and 2015/16

Prices for water usage based charges remain unchanged for 2015/16. A thorough review of the business' financial model demonstrates that the business is able to sustain usage based prices for the 2015/16 year whilst achieving a near breakeven operating result. In addition this strategy also provides existing and prospective customer's confidence in the price stability of the Salisbury Water service. Other miscellaneous fees and charges have been increased for the first time in several years to account for increases in wages and other administration cost only.

A copy of the pricing schedule for the 2015/16 year, including a comparison with those of the 2014/15 year indicating the respective price movements is provided in Appendix 1.

Achievement of Principles set out in the Price Determination for Minor/Intermediate Retailers

The City of Salisbury is required to demonstrate that its pricing is consistent and compliant with the National Water Initiative (NWI) Pricing Principles.

The following analysis provides an explanation as to how the City of Salisbury charges relating to the provision of recycled water serves complies with the relevant pricing principles.

1: Flexible Regulation

Light handed and flexible regulation (including use of pricing principles) is preferable, as it is generally more cost-efficient than formal regulation. However, formal regulation (e.g. establishing maximum prices and revenue caps to address problems arising from market power) should be employed where it will improve economic efficiency.

Light handed and flexible regulation is part of the framework currently established by ESCOSA.

2: Cost Allocation

When allocating cost, a beneficiary pays approach, typically including direct user pays contributions, should be the starting point, with specific costs shared across beneficiaries based on the scheme's drivers (and other characteristics of the recycled water/storm water reuse scheme)

Costs are allocated to the Salisbury Water Business Unit (SWBU) within the three broad groupings of Production, Distribution, and Retail. Costs relating to upstream activities associated with flood control, landscaping etc are considered costs applicable to the broader community and not specifically to water consumers and therefore not allocated to the SWBU.

Where appropriate, specific fees may be charged to a customer where costs are a direct benefit to that customer (eg connection fees).

3: Water Usage Charge

Prices to contain a water usage (ie. volumetric) charge.

In general water usage charges are based on volume consumed. The only exceptions relate to the annual supply charge (for meter reading and billing) and the fixed annual charge for small area properties (<300m²) where the annual consumption/revenue does not justify the cost of meters and meter reading. While this practice does not reflect the NWI bias for volumetric charges it is gaining acceptance as an appropriate practice based on cost/benefit considerations.

4: Substitutes

Regard to the price of substitutes (potable water and raw water) may be necessary when setting the upper bound of a price band.

Pricing is established independent of that for potable water with the objective being to achieve full cost recovery, however the price of substitutes (eg. potable water) competition, alternative storage or water saving strategies open to a customer are key considerations in determining prices.

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5: Differential Pricing

Pricing structures should be able to reflect differentiation in the quality or reliability of water supply.

At this stage there has been no requirement to apply differential pricing on the basis of quality and reliability of supply as these factors are consistent across the network. Should it be necessary to treat water to a different standard for a customer then differential pricing would be considered.

6: Integrated Water Resource Planning

Where appropriate, pricing should reflect the role of recycled water as part of an integrated water resource planning (IWRP) system.

Salisbury Water was created in the context of a broader water resource planning framework with objectives to reduce dependence on River Murray water and potable water, avoid polluting the Barker Inlet, drought proofing the community, flood control, and improving the amenity of the area. Management of Salisbury Water continue to be involved in dialogue at a range of forums with respect to resource planning and developments, particularly as this is still a developing field.

However, reference to activities external to the business unit such as upstream activities that may improve the quality of water or other planning/management is not generally considered in pricing decisions currently.

7: Cost Recovery

Prices should recover efficient, full direct costs — with system-wide incremental costs (adjusted for avoided costs and externalities) as the lower limit, and the lesser of stand-alone costs and willingness to pay (WTP) as the upper limit. Any full cost recovery gap should be recovered with reference to all beneficiaries of the avoided costs and externalities. Subsidies and Community Service Obligation (CSO) payments should be reviewed periodically and, where appropriate, reduced over time.

Direct costs include any joint/common costs that a scheme imposes, as well as separable capital, operating and administrative costs. This definition of direct costs does not include externalities and avoided costs.

Pricing policy is designed to ultimately achieve full cost recovery and a return on capital. Within this context, the most important considerations in setting prices relate to the markets willingness to pay, the price of substitutes, and pricing certainty for consumers.

In particular willingness to pay which implicitly factors in substitute water costs, conservation, and competition remains a constraint on achieving upper bound pricing on current cost structures.

As a relatively new provider of water services, Salisbury Water aims to achieve full cost recovery and return on capital through increased sales volume from existing infrastructure, rather than increasing prices.

8: Transparency

Prices should be transparent, understandable to users and published to assist efficient choices.

As a public sector organisation with highly open and visible processes to the public, including our budget and pricing decisions, that the requirements of transparency are well and truly met. This is reinforced with the provision governing the water business as a regulated entity.

9: Gradual Approach

Prices should be appropriate for adopting a strategy of 'gradualism' to allow consumer education and time for the community to adapt.

Council is conscious of the impact of large price increases. No price increases will apply to water usage based charges for this year.

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APPENDIX 1

Salisbury Water 2015 – 2016 Pricing Schedule Recycled Water Services

Non-Drinking Water Retail Services	Unit of measurement	Current Year \$/unit	Previous Year \$/unit	Percentage Price Change
Non-Residential				
Substantive Retail Water Supply	<i>per kL</i>	2.55	2.55	0%
Day time Supply to Tank Only	<i>per kL</i>	2.32	2.32	0%
Community Based Not for Profit Organisation <i>(upon application)</i>	<i>per kL</i>	1.65	1.65	0%
Bulk Water Supply <i>(negotiated)</i>	<i>per kL</i>	1.65	1.65	0%
Water Banking and Licenced Transfer of Credits	<i>per kL</i>	1.90	1.90	0%
Residential				
Substantive Retail Water Supply <i>(allotment sizes over 300m²)</i>	<i>per kL</i>	2.55	2.55	0%
Supply Charge <i>(meter reading, cross connection audits etc)</i>	<i>per annum</i>	50.00	50.00	0%
Fixed Annual Charge - allotment size up to 300m ² (External Supply Only)	<i>per annum</i>	103.00	100.00	0%
Fixed Annual Charge - allotment size up to 300m ² (Internal/External supply)	<i>per annum</i>	123.00	120.00	0%

Other Ancillary & Related Retail Services	Unit of measurement	Current Year \$/unit	Previous Year \$/unit	Percentage Price Change
Non Payment - Flow Restrictor		184.00	177.00	4%
Disconnection - non payment <i>(Plumbing works + plus Administration costs)</i>		Actual contractor cost + \$177.00	Actual contractor cost + \$154.00	15%
Connection Fee - 20mm meter / 50mm meter		Fee to be quoted per connection	Fee to be quoted per connection	-