

# Salisbury Water

## 2020-21 Pricing Policy Statement



### Introduction

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The City of Salisbury is a licenced intermediate sized water retailer, supplying recycled water (Salisbury Water) to residential and non-residential customers.

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

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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 their regulated water retail service.

### Description of Regulated Retail Service – Recycled Water Services

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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 meets 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 from an extensive network of Managed Aquifer Recharge (MAR) wells.

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

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The City of Salisbury's pricing policy is designed to ultimately achieve full cost recovery and return on the capital investment in the MAR schemes and water distribution infrastructure. 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.

The City of Salisbury plans to achieve full cost recovery and return on capital investment through continued sales growth, and optimised use of existing infrastructure, rather than by increasing prices.

The City of Salisbury has established a separate recycled water business (Salisbury Water Business Unit, SWBU) in order to effectively 'ring-fence' or 'quarantine' the costs and revenues of its water service separately from the costs of its normal Council operations. This facilitates a more effective determination of the true water business costs and hence a transparent development of water pricing.

### Price Movements between 2019/20 and 2020/21

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Council adopted its 2020/21 Annual Plan and Budget focused on supporting the community through COVID-19. The budget features a range of proactive measures including no increase to fees and charges for 2021/21. Based on this, Salisbury Water consumption and supply charges for 2020/21 will remain unchanged from 2019/20.

Other Ancillary & Related Retail Services fees remain unchanged.

A copy of the pricing schedule for the 2020/21 year, including a comparison with those of the 2019/20 year is provided in Appendix 1.

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

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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 services 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 SWBU within the three broad groupings of Production, Distribution, and Retail. Council has carefully defined rules for Asset and Service 'ownership' so that costs relating to 'normal' Council responsibilities, such as drainage, flood control, landscaping etc are not allocated to the SWBU.

Where appropriate, specific fees may be charged to a water customer where the costs are providing 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 the metered volume supplied. The only exceptions relate to the annual supply charge (for 5 yearly cross-connection audit, meter reading and billing) and a fixed annual charge for small area properties (<300m<sup>2</sup>) 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 the 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/potable water, reducing stormwater pollution to the Barker Inlet, drought proofing the community, assisting flood mitigation, and improving the amenity of the area. Staff of the SWBU continue to be involved in dialogue at a range of forums with respect to resource planning and development.

However, activities external to the SWBU, such as catchment activities that may improve the quality of water, are not currently factored in pricing decisions.

### 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 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.

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.

The SWBU 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, the requirements of transparency are well and truly met. This is reinforced with the provision governing the SWBU 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 and due to COVID-19 is supporting the community by not implementing any increases in fees and charges for 2020/21.

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### APPENDIX 1

#### Salisbury Water 2020 - 2021 Pricing Schedule Recycled Water Services

Non-Drinking Water Retail Services	Unit of measurement	Current Year \$/unit	Previous Year \$/unit	Percentage Price Change
<b>Non-Residential</b>				
Substantive Retail Water Supply	<i>per kL</i>	2.78	2.78	0%
Day time Supply to Tank Only	<i>per kL</i>	2.53	2.53	0%
Community Based Not for Profit Organisation <i>(upon application)</i>	<i>per kL</i>	1.80	1.80	0%
Bulk Water Supply <i>(negotiated)</i>	<i>per kL</i>	1.80	1.80	0%
Water Banking and Licenced Transfer of Credits	<i>per kL</i>	By Neg	By Neg	-
<b>Residential</b>				
Substantive Retail Water Supply <i>(allotment sizes over 300m)</i>	<i>per kL</i>	2.78	2.78	0%
Supply Charge <i>(meter reading, cross connection audits)</i>	<i>per annum</i>	40.00	40.00	0%
Fixed Annual Charge - allotment size up to 300m <sup>2</sup> (External Supply Only)	<i>per annum</i>	112.00	112.00	0%
Fixed Annual Charge - allotment size up to 300m <sup>2</sup> (Internal/External supply)	<i>per annum</i>	134.00	134.00	0%

Other Ancillary & Related Retail Services	Unit of measurement	Current Year \$/unit	Previous Year \$/unit	Percentage Price Change
Non Payment - Flow Restrictor		284.00	284.00	0%
Disconnection - non payment		Contractor cost + \$179.00	Contractor cost + \$179.00	0%
Connection Fee - 20mm meter / 50mm meter		Quoted per connection	Quoted per connection	-
Meter Relocation		Contractor cost + \$179.00	Contractor cost + \$179.00	
Special/Final Meter Read		28.00	28.00	