August 2018

Attention: Mr Martin Bray

Dear Mr Bray

City of Onkaparinga Community Wastewater Management Scheme charges

Thank you for your email of 26 June 2018, which outlined your concerns regarding the City of Onkaparinga’s (Council) Community Wastewater Management Scheme (CWMS) charges.

In the email, you expressed concerns regarding whether the Council’s managing contract with TRILITY Pty Ltd (TRILITY) is delivering “best value for money” for ratepayers and the fairness of the Council’s postage stamp pricing system for CWMS. In particular, you expressed the view that CWMS customers in the Clarendon area should not be cross-subsidising CWMS users in other townships in the City of Onkaparinga.

The Essential Services Commission (Commission) has investigated those matters and, based on the evidence currently available to it, has determined that the Council is complying with the regulatory requirements under the Water Industry Act 2012 (Act). The information below sets out how the Commission has arrived at that decision.

Regulatory framework

The Act commenced on 1 July 2012 and established a regulatory framework for the water and sewerage industry. Under the Act, the Commission has various regulatory functions including licensing and price regulation of water and sewerage services.

As part of the Commission’s price regulation function, the Commission may make a determination to regulate prices, conditions relating to prices or price-fixing factors for the provision of water and sewerage services, and include any requirements of an order issued by the Treasurer under the Act. In 2012, the Treasurer issued an order that requires the Commission to adopt or apply the National Water Initiative (NWI) Pricing Principles when making a price determination for the provision of water and sewerage services.

As the Council is licenced by the Commission to provide sewerage services, it must comply with any price determination made by the Commission. Since 1 July 2013, a price determination has been in effect which requires licensees, including the Council, to:
1. comply with the NWI Pricing Principles when charging for the supply of water services and sewerage services, and
2. report on compliance with the NWI Pricing Principles to the Commission on an annual basis (Price Determination).

In accordance with the Price Determination, the Council has the flexibility to set its CWMS charges, but must adopt the NWI pricing principles in the price-setting process. Those principles cover areas such as full cost recovery, asset valuation and pricing transparency. Retailers must set charges to achieve full cost recovery of capital expenditure, including future asset replacement. Further, retailers must publicly disclose their prices and communicate to their customers the basis upon which they are set.

The Commission’s investigation process

Having regard to the matters raised in your email, the Commission has investigated whether or not the Council has complied with the requirements of the Price Determination.

In investigating your complaint, the Commission has:

▷ assessed the information provided by you (email and subsequent discussions with staff of the Commission)

▷ reviewed information provided by the Council to the Commission on an annual basis in accordance with its reporting requirements under the Price Determination

▷ assessed the information the Council has provided to the Commission in response to this matter, namely: the Council’s correspondence with yourself, and other relevant information in relation to the Council’s CWMS operations (including its annual Business Plans and Corporate Asset Management Plan)

▷ organised a teleconference with the Council’s representatives on 2 July 2018 to discuss the complaint and obtain further information, and

▷ carried out benchmarking of the Council’s CWMS and operating costs against other comparable councils in South Australia as shown in Table 1 below.

Table 1: General information on Council’s CWMS (as at 30 June 2017)

<table>
<thead>
<tr>
<th>Council</th>
<th>No. of CWMS</th>
<th>No. of CWMS customers</th>
<th>Length of sewer mains (km) (including CWMS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adelaide Hills Council</td>
<td>6</td>
<td>1,868</td>
<td>60</td>
</tr>
<tr>
<td>Berri Barmera Council</td>
<td>6</td>
<td>3,632</td>
<td>52</td>
</tr>
<tr>
<td>City of Onkaparinga</td>
<td>6</td>
<td>4,353</td>
<td>145</td>
</tr>
<tr>
<td>Mount Barker Council</td>
<td>5</td>
<td>11,327</td>
<td>350</td>
</tr>
<tr>
<td>The Barossa Council</td>
<td>7</td>
<td>7,609</td>
<td>209</td>
</tr>
</tbody>
</table>

The Commission’s assessment and findings

In response to your complaint, the Commission has examined the extent to which the Council is complying the relevant pricing principles under the Price Determination, including relevant NWI Pricing Principles relating to cost recovery and price differentiation.
Based on the information assessed, the Commission found that the Council is satisfying the NWI Pricing Principle for recovery of prudent and efficient costs for the following reasons:

- The Council commissioned an independent consultant, BRM Holdich, to undertake an annual review in conjunction with relevant Council officers of its CWMS charges to ensure those charges are set at an appropriate level and the CWMS scheme is financially sustainable over the long term. A major input into that annual review is the detailed capital investment, operation and maintenance information as developed by TRILITY.

- The Council has in place an asset refurbishment/replacement plan for a seven-year period to FY2021 which provides the basis of capital expenditure forecasts. Further, TRILITY is required to develop a similar five-year rolling asset management plan in conjunction with the Council under the terms of the managing contractor agreement.

- The Commission has evidence that the 25 year managing contractor agreement between the Council and TRILITY was entered into following an open competitive tender process to seek private sector participation for the ongoing management and development of CWMS in the City of Onkaparinga.

- The Commission has evidence that Trility undertakes its own tendering process for significant capital works and provides the results of that to Council before making a decision. This provides some assurance that capital expenditure is efficient, as it has been market tested.

- The Commission's high-level benchmarking of financial information submitted by retailers indicates that neither the Council's operating revenue and cost on a per CWMS customer basis or annual CWMS charges are excessively high as compared to other comparable councils (refer Figures 1 and 2).

When comparing prices across different Councils, it is also important to consider the specific costs of managing each CWMS (for example, number of connections, length and condition of system and quality of the source water). Prices paid by customers will therefore depend on a range of factors and the rate of change of CWMS charges will also vary amongst councils.

Figure 1: Benchmarking of operating revenues and costs on a per sewerage customer basis
The Commission has also found that the Council is satisfying the NWI Pricing Principle for differential pricing under the Price Determination, which allows retailers to average charges across multiple schemes and impose a uniform charge for all CWMS users.

The Commission notes that the Council has provided the following reasons to support its decision to adopt a postage stamp (i.e. uniform) pricing approach:

- All CWMS customers are considered to benefit from increased numbers of households accessing the CWMS and therefore contribute to the capital cost recovery through the contribution margin effect.

- The Council does not apply differential pricing for providing the CWMS operational service (as distinct from the capital service provision) due to the complexity and potential inaccuracy of isolating and attributing the costs to different parts of the CWMS network.

The Commission also notes that all the other four councils in Table 1 also currently implement a postage stamp pricing approach for their respective CWMS schemes.
Outcome of the Commission’s investigation

On the information available, the Commission considers that the Council is complying with the NWI pricing principles and therefore the Commission’s Price Determination.

Subject to any further evidence relevant to this matter becoming available, the Commission has concluded its findings and investigation of this matter. A copy of this correspondence has been provided to the Council, for information.

Yours sincerely

[Signature]

Adam Wilson
Chief Executive Officer

cc. City of Onkaparinga