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SA Water Pricing Inquiry

Submission from Livestock SA, February 2019

Livestock SA was pleased to receive a copy of the Inquiry's Third Report "A Cautious Conclusion" and wishes to applaud the findings as outlined in the report.

The Inquiry is to be commended for the work undertaken and for the preparation of a thorough Report, providing in-depth analysis to demonstrate that unreasonably high water prices have been set.

We are unsure why the Inquiry's conclusions needed to be "cautious". The Report outlines the following:

- The 'line in the sand' approach to valuation was used in South Australia in a manner quite different to its application in other jurisdictions and resulted in a significantly higher Regulated Asset Base (RAB) (pages 2 and 40).
- All consumers would prefer fair and reasonable (and certainly lower) water prices (page 6).
- Asset values account for up to 70% of the price (page 14).
- SA Water's accounting practices whilst compliant, are not necessarily suitable and appropriate for adoption as a regulatory asset value where different rules apply (page 16).
- It was not strictly correct for ESCOSA to endorse the Depreciated Optimised Replacement Cost (DORC) value without undertaking an economic analysis (page 16).
- Prior to reform of the water industry, there was no consideration of earning a return on capital invested (page 16). Livestock SA would question why this now needs to be a consideration. Certainly, delivery of water needs to be efficient and follow best practice, but why does it need to earn a return above a depreciation or asset replacement cost?
- Asset valuation does not appear to have been externally reviewed by an independent expert, and not subject to external expert valuer review (page 23).
- Some assets have remained in the Regulated Asset Base (RAB) even when their earning potential has ceased (page 24).

- SA cost of water is higher than other jurisdictions (page 29 and figure 3).
- Need for greater transparency, with a more structured process promised in 2004/05 allowing for greater public scrutiny but not followed through (page 34).
- ESCOSA in its reviews of the Transparency Statements continued to call for at least an estimate to be made of the different approaches of valuing pre-corporatisation assets but this was never adopted (page 37).
- The Government elected to retain the full Depreciated Optimised Replacement Cost (DORC) valuation of the asset based and not to draw their 'line in the sand' to write down the value of legacy assets (page 39).
- Whilst the treatment of legacy assets might comply with a strict interpretation of the National Water Initiative Principles, it seems to the Inquiry it was hardly moderate or fair when compared to how other jurisdictions treated the value of their legacy assets (page 40).
- In relation to expanding the Adelaide desalination plant it was only assumed that an economic case was done and presented (page 41).
- The concerns listed¹ raised from the 2004 decision to adopt the statutory asset valuation from the SA Water accounts as the opening Regulated Asset Base (RAB) (page 43).
- Compared to the independent inquiries and price reviews undertaken elsewhere across Australia, the process in South Australia was secretive and limited in its engagement (page 44).

These statements and findings certainly show that there is no need to be "cautious" in the Inquiry's findings and conclusions.

When Professor Blandy's observations (page 9) are taken into consideration, the need to be "cautious" is further diminished. Livestock SA strongly endorses Professor Bandy's observations, particularly that the Inquiry should not take account the impact on Government revenues and programs supported by SA Water dividend payments; arguments that supported a high price for water because of its scarcity are not necessarily correct; and the water industry outputs should be delivered at the lowest possible cost, and not based on monopoly profits.

¹ "The 2004 decision to adopt the statutory asset valuation from the SA Water accounts as the opening RAB value brought with it a number of concerns regarding:

- The credibility of the DORC values which had not been independently reviewed or challenged
- The inclusion in the DORC value of the value of all contributed assets from 1966 onwards
- The failure to apply a Deprival Value (Economic Value) methodology to set the opening RAB which also left open the question as to an appropriate value of the historical assets for future pricing
- The applicability of statutory accounting values to the establishment of a regulated asset base."

Livestock SA had previously complained about the Inquiry' narrow terms of reference, which is shown again by the fact that the Inquiry does not have the power to determine a revised Regulated Asset Base (RAB). Unfortunately, this decision is reserved for the Treasurer and the findings of the Inquiry will be just one input amongst other advice to be considered. In other words, there could well be no change in how water prices are set.

We would like to thank the Inquiry for referring Livestock SA's submission to ESCOSA for its information.

In following its terms of reference, Livestock SA contends that it is not up to the Inquiry to consider the consequences of any significant reduction in the Regulated Asset Base (RAB) on Government revenue and its ability to fund other programs. In fact, Livestock SA would go further and say that there should not have been any revenue from SA Water to the Government, with the price set to ensure renewal and any necessary expansions of assets to be used by SA Water to safeguard its operations and long-term sustainability.

For Livestock SA and its members, the crux of the issue is highlighted by the summary in the Report of the price rises (page 43):

"Real water price rises of 12.7% in 2008/09, 17.9% in 2009/10 and 21.7% in 2010/11 were followed by nominal increases of 26.3% in 2011/12 and 25.0% in 2012/13. The process is characterized by a dramatic rise in water prices over the period: from an Index of 100 in June 2008, the increases resulted in a price index of approximately 270 by July 2012."

The State Government states that it is aiming for the lowest cost environment possible to do business. Reducing the price of water needs to be considered as part of this process. This needs to start with a reassessment of the Regulated Asset Base (RAB).