Regulatory Business Plan 2024-28

Summary

Government of South Australia

Contents

As a public utility, we are responsible for delivering a reliable supply of safe, clean, water and dependable wastewater services for more than 1.7 million South Australians. We do this by managing the largest water network and one of the largest sewerage networks in the country.

Continuing to meet customer expectations and service standards requires ongoing investment.

This is a summary of our Regulatory Business Plan 2024-28 which outlines our proposed investment for 2024-28. The full plan is available on our website.

About the plan

Every four years we submit a regulatory business plan to our economic regulator, the Essential Services Commission of South Australia (ESCOSA).

Our plan outlines the revenue we require to operate and invest in our business for the next regulatory determination period. It also includes how we propose to deliver the services our customers value and expect, and to meet all our regulated responsibilities including health, safety and environmental.

Our customers informed the plan through a comprehensive research and engagement program which we used to plan and prioritise investments.

ESCOSA reviews our plan and provides a regulatory determination which establishes the customer outcomes we need to deliver and the allowable revenue we can recover from our customers. Together with the government, we then set prices each year to achieve the allowable revenue across each four-year regulatory period.

For full details, see chapter 2 of our Regulatory Business Plan 2024-28.

Our operating context

The current regulatory period, which began in July 2020, has been challenging for us, as it has been for many utilities and large companies across Australia. Disruptions arising from COVID-19, compromised supply chains, cost escalations above the consumer price index, and large-scale events, such as the River Murray floods, and broader global conflict have required the use of innovative approaches and solutions to continue to deliver services for our customers.

In this environment, costs in the current regulatory period have been higher than expected, and this has impacts for the next regulatory period, including higher operating costs and the deferral of some capital investments we were not able to deliver in the current period.

Maintaining essential water services while keeping customer bills as low as possible amid global inflation is the driving principle behind our submission. It seeks to balance managing affordability for our customers with efficiently delivering the services they rightly value and expect. Maintaining and replacing ageing water and wastewater infrastructure needs to be weighed against future growth, and needs to respond to the impacts of climate change in the 2020s, the 2030s and beyond.

The plan seeks to strike a balance between all these priorities and outlines how we propose to invest in the 2024-28 period to deliver services at the lowest immediate cost. In doing so, we note there will be need for growing capital investments in future periods to manage the impacts of ageing infrastructure while maintaining expected levels of service.

For full details, see chapter 3 of our Regulatory Business Plan 2024-28.

Proposed investment and customer bill impact

To maintain the current service standards, we propose to invest $462 million in water services and $245 million in wastewater services on average through each year of the regulatory period. This is estimated to impact a residential customer's quarterly SA Water bill with typical water use and average property value by $10.20 (excluding inflation, or $17.80 where inflation of 2.5 per cent is assumed in 2024-25).

In real terms, water and sewerage bills remain lower than what they were 10 years ago (Figure 1).

Changes to projected operating costs are also affecting the proposed levels of investment, noting decisions made following a formal request from the State Government to reduce the operating revenue we seek through the regulatory submission process. In response, we will reduce some of our operating security investments, sought expenditure on metropolitan service contracts and recovery of electricity expenditure by around $35 million per annum.

Electricity costs are estimated to rise through the regulatory period by more than 75 per cent when compared with the electricity allowance set by the Essential Services Commission of South Australia as part of the 2020 final regulatory determination. This is a primary driver of operating cost increases, together with providing services to additional customers and meeting external responsibilities.

Proposed capital investments of $2.8 billion will largely be driven by work programs to maintain services to current customers (47 per cent), meet external obligations (26 per cent) and meet growth (22 per cent), with the balance spent on improving services.

We have proposed a flat 2 per cent capital efficiency and additional operating efficiencies in the next regulatory period, recognising that more than $350 million in total efficiencies have already been achieved in the current and previous regulatory periods.

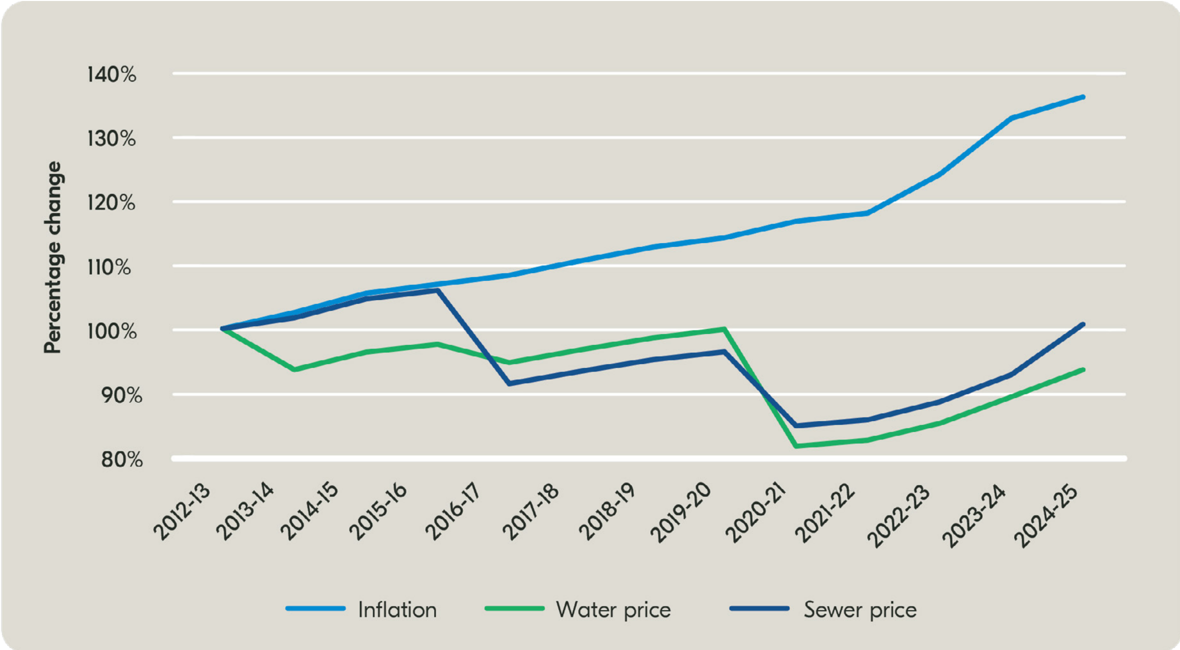

Figure 1 - Water and sewerage prices compared with inflation, 2012-25

For full details, see chapters 10 and 12 of our Regulatory Business Plan 2024-28.

Customer engagement approach and outcomes

Our Regulatory Business Plan 2024-28 has been informed by our customers and key stakeholders.

Engagement was undertaken through a range of approaches to ensure our plan was informed by meaningful engagement with a diverse range of stakeholders. Stakeholder views and feedback were carefully considered and incorporated into planning and prioritisation.

There were three phases of engagement (Figure 2).

Engagement activities incorporated three processes:

1. Broad engagement was used to raise awareness about our planning process, how to get involved, and encouraged feedback from a wide audience, reaching thousands of customers. Through social media and other communication channels, we encouraged our customers to engage, reaching more than 1.4 million people (including more than 180,000 letterbox drops, Facebook reach of more than 620,000 and online digital reach of about 600,000).

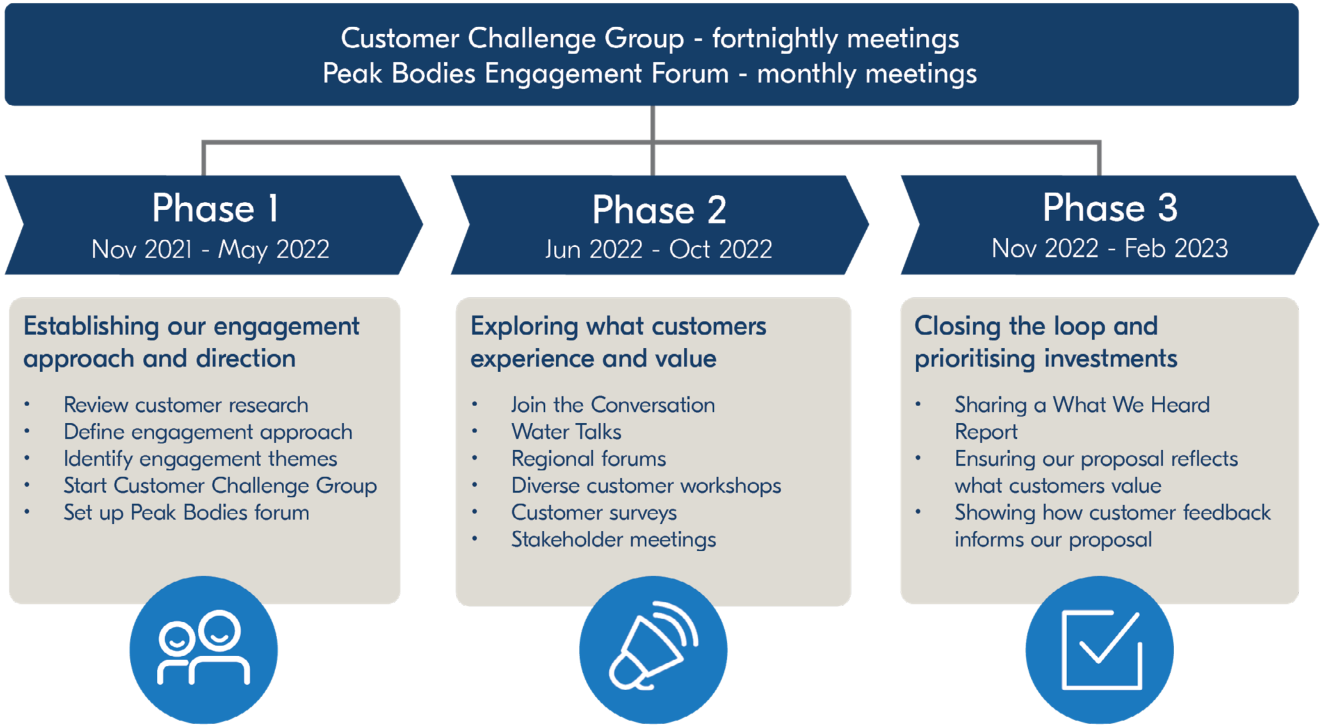

Figure 2 - Engagement phases

Customer engagement approach and outcomes

2. Targeted activities directly engaged key stakeholders, organisations and community members to ensure diverse perspectives informed our planning. Among these activities were conversations with our regional customers through community workshops and interviews to enable feedback on issues specific to geographic areas.
3. Engagement through two forums, the Customer Challenge Group (CCG) and Peak Bodies Engagement Forum (PBEF). The CCG comprised 11 people representing a cross-section of our customers with a diverse range of skills and backgrounds. The PBEF was made up of key industry and community representative organisations drawn from our existing Customer Advisory Group and members of ESCOSA's Customer Advisory Committee. These groups reviewed and challenged initiatives and helped identify priorities for investment from the perspective of different customer groups.

Engagement with customers and stakeholders was complemented by insights and feedback collected through our ongoing tracking research.

To further inform and prioritise new initiatives, during August and September 2022, we tested how customers valued proposed new initiatives through a willingness to pay study.

Willingness to pay is one input to investment prioritisation that gave an indication of customer support. The investment proposals tested were also assessed against other engagement outcomes, where relevant, and other prioritisation measures applied to all investment proposals.

For full details, see chapter 4 and the research and engagement sections of chapters 8 and 9 of our Regulatory Business Plan 2024-28.

Prioritising investment

Through 2022, as engagement on our plan progressed, household budgets were affected by rising interest rates, ongoing impacts of the COVID-19 pandemic, large-scale events such as the River Murray floods and broader global conflict. Both the CCG and PBEF began to identify affordability as a focus.

In this environment, we went back to the CCG and PBEF for their guidance on prioritising investments in an environment where we are not able to progress all supported initiatives.

Feedback from the CCG, which was endorsed by the PBEF, ranked the five top priorities to guide our investment decision-making:

1. meet legal obligations
2. continue to maintain current levels of service to existing customers
3. address long-term affordability
4. deliver services to new customers
5. deliver new service offerings.

This feedback was used to further support the prioritisation criteria we adopted when determining what initiatives to progress.

Some of the investment areas supported by the willingness to pay survey outcomes that had high operating costs were not prioritised for 2024-28 for reasons of affordability. These initiatives may be considered for future regulatory periods.

For full details, see chapters 7, 8 and 9 of our Regulatory Business Plan 2024-28.

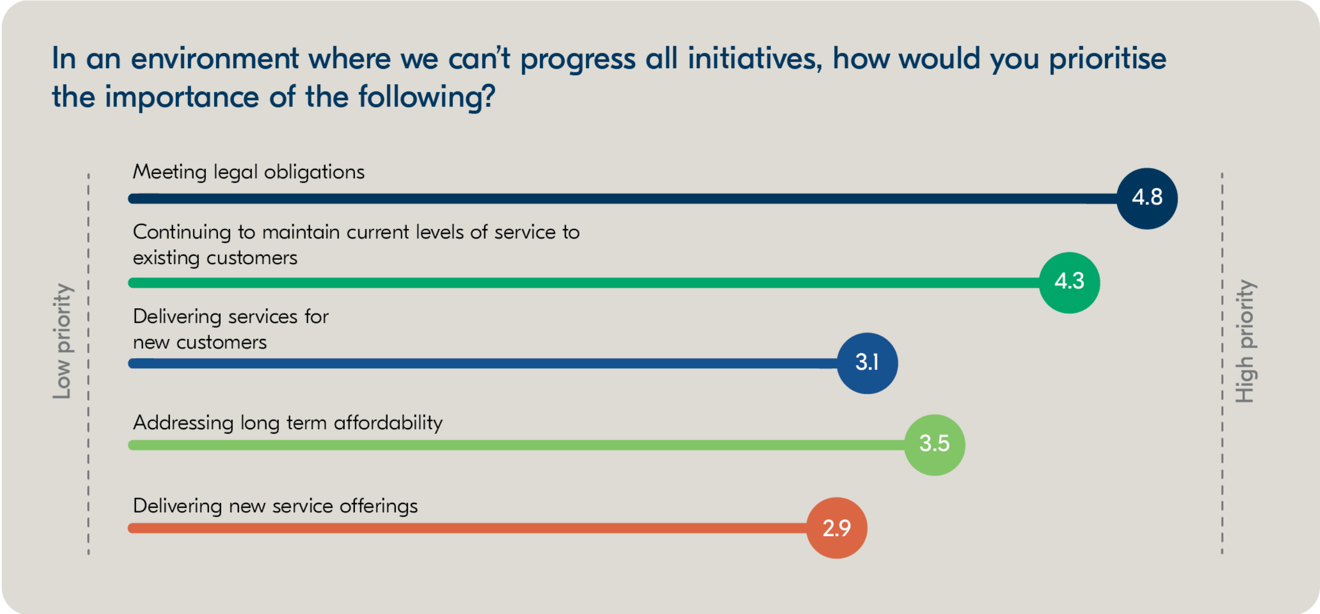

Figure 3 - CCG feedback of investment priority

Proposed capital expenditure

Our proposed capital expenditure for 2024-28 focuses on maintaining our services and standards for customers and the community, with some support for growth projects and investigations of new water sources to ensure a secure and resilient water future.

Works supporting water services are proposed to include major pipeline renewals, as well as maintenance on trunk mains, major pipelines, reticulation networks and supporting infrastructure such as tanks.

Proposed wastewater and recycled water network investments include maintenance of mains, treatment plants and supporting infrastructure such as pump stations. Where it is needed, we are also proposing renewal and replacement work. Several initiatives on the wastewater network are driven by *Environment Protection Act 1993* requirements.

Growth investment will mostly focus on extending our water and wastewater networks to manage the forecast population growth, particularly in northern Adelaide.

There will also need to be continuing investment in enabling technology.

Major investments proposed for the period include:

- the Eyre Peninsula desalination project, following extended consultation that saw works deferred from the current regulatory period
- continuing investment in the Tea Tree Gully Sustainable Sewers program
- replacing more than 200 kilometres of water mains and more than 40 kilometres of wastewater mains
- continuing Mount Bold Dam safety upgrade works, which are being delivered over multiple regulatory periods to reduce costs to customers
- starting work to replace our billing system, which is scheduled to occur over two regulatory periods to reduce costs to customers.

For full details, see chapter 8 of our Regulatory Business Plan 2024-28.

Proposed operating expenditure

Increases to our proposed operating expenditure have been driven by cost increases, with inflation resulting in rising prices for materials we used every day to provide trusted water services to our customers and community.

Our base operating expenditure, together with additional operating expenditure for new initiatives and to meet growth includes:

- delivering services to 30,000 new water customers and an estimated extra 10 gigalitres of water which requires additional operating investments
- increased electricity costs through the regulatory period
- the Eyre Peninsula Desalination Plant beginning operation
- external obligations related to the Superannuation Guarantee, Security of Critical Infrastructure, reservoir-related health obligations, and government directions.

For full details, see chapter 9 of our Regulatory Business Plan 2024-28.

Next steps

Our Regulatory Business Plan will be considered by ESCOSA. They will consult on our plan and then prepare and release a Draft Determination.

This draft will detail ESCOSA's initial evaluation of what we are proposing for 2024-28, with consideration given to public submissions it has received and its own assessments.

The Commission will also present a draft position on how much revenue it believes we will need to deliver services at the lowest sustainable long-term cost to customers.

ESCOSA's Draft Determination will be released in early 2024 and made available for public comment. Our response to the determination will be made publicly available on the ESCOSA website, which will also house ESCOSA'S Final Determination, which is due in mid-2024.

When the Final Determination is received, together with the State Government, we will set prices for delivering our regulated water and wastewater services based on the final approved revenue. These prices will apply from 1 July 2024, and will be reviewed and set annually through the regulatory period.

To stay up to date on the determination process, visit ESCOSA's website at **escosa.sa.gov.au**.