ESC water pricing conference
9-10 November 2015

WATER SERVICES
ASSOCIATION OF AUSTRALIA

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Deputy Executive Director

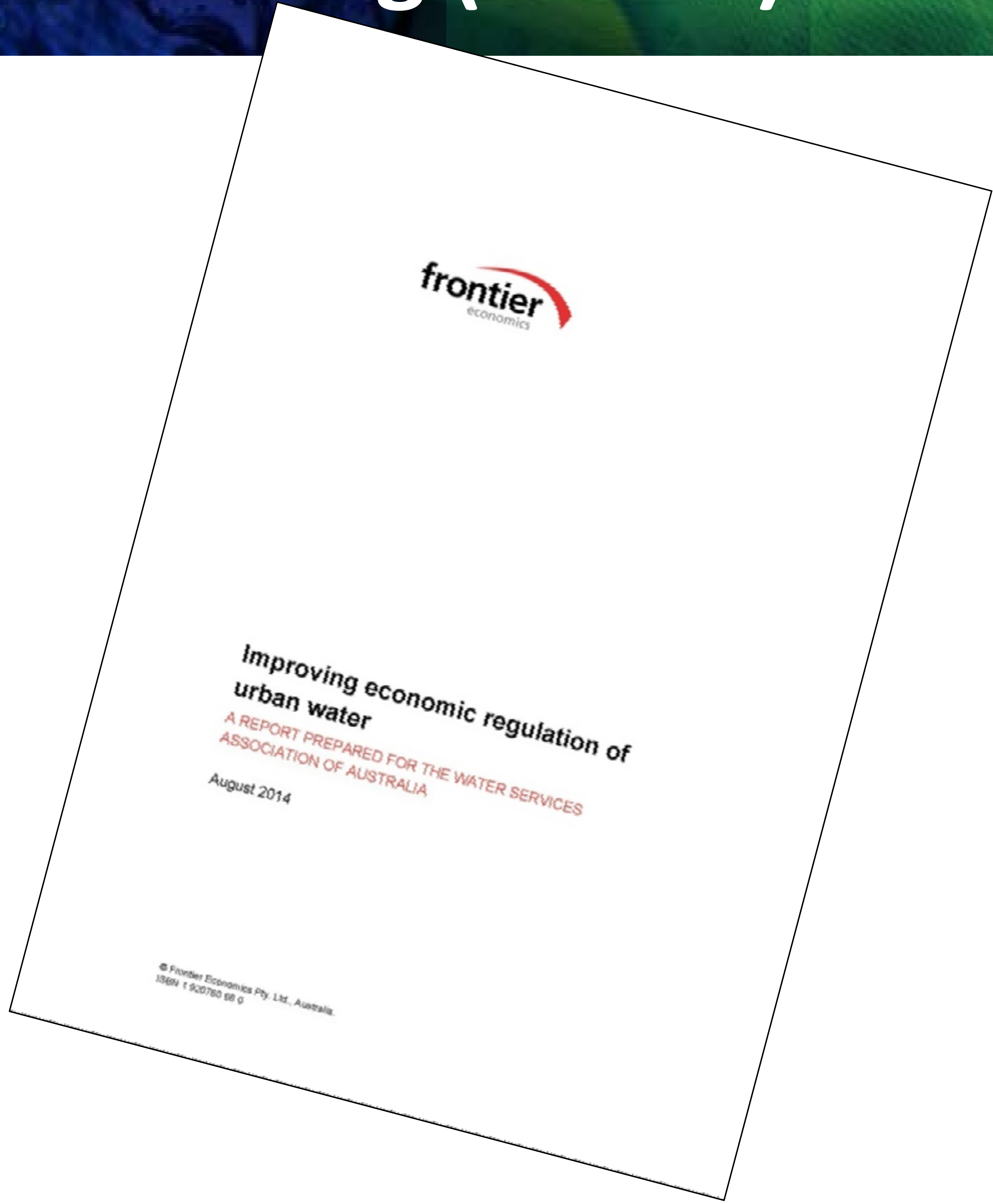
Key messages

1. Build on strong foundations
2. Long term financial viability
3. Transparency around environmental tradeoffs
4. Regulating under competition
5. Who pays for growth
6. The way forward

Don't demolish the building (blocks)

WSAA's work on economic regulation

- Independence
- Objective to promote long term interests of customers
- Customer at the centre
- Incentives for efficiency and productivity
- Financial viability testing
- Merits review



frontier economics

Improving economic regulation of urban water

A REPORT PREPARED FOR THE WATER SERVICES ASSOCIATION OF AUSTRALIA

August 2014

Financial viability checks critical

- Regulators have made a good start
- Utilities need to maintain and renew assets without price shocks
- An essential cross check on the 'core' pricing approach
- More than a timing issue
- The thresholds look low

The more 'creative' the pricing approach the more critical the financial check

UK update - PR 14 Outcomes

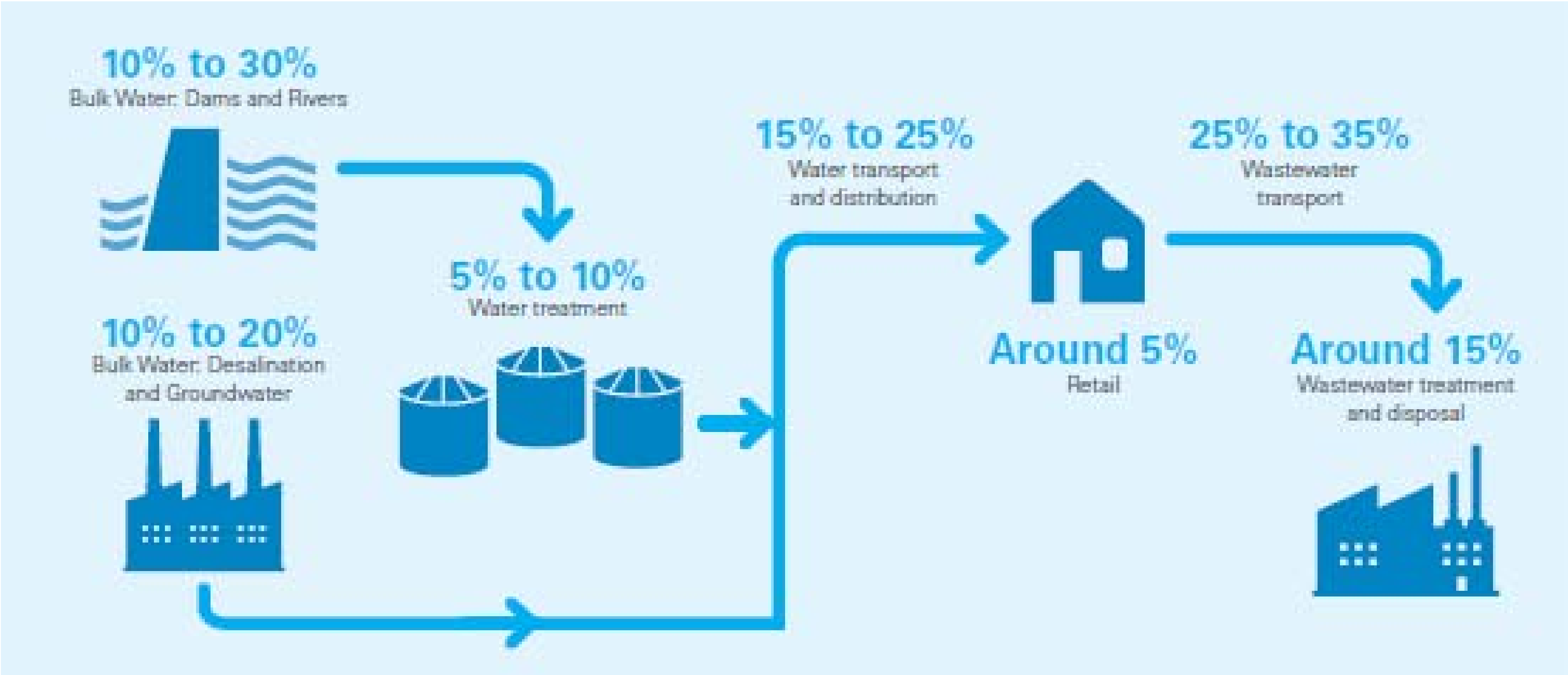
	ANH	NES	SRN	SVT[1]	SWT	TMS	UU[1]	WSH	WSX
ICR	2.88	3.54	3.44	3.12	3.08	2.84	3.28	2.54	3.30
ACICR	1.46	1.84	1.46	1.55	1.53	1.40	1.65	1.59	1.78
FFO/debt	8.57%	11.48%	11.08%	9.60%	9.74%	8.43%	10.25%	6.97%	10.44%
RCF/debt	5.98%	8.84%	8.42%	6.97%	7.11%	5.92%	7.53%	4.41%	7.84%
Gearing	62.62%	62.01%	62.02%	63.09%	62.04%	64.58%	59.83%	62.52%	63.93%

	YKY	AFW	BRL	DVW	PRT	SBW	SES	SEW	SSC
ICR	3.03	3.56	3.63	3.33	2.68	3.32	3.46	3.03	3.70
ACICR	1.65	2.17	1.69	1.52	1.33	1.90	1.19	1.76	1.51
FFO/debt	9.20%	12.08%	12.07%	10.87%	8.04%	11.08%	11.23%	9.20%	12.31%
RCF/debt	6.59%	9.51%	9.41%	8.43%	5.45%	8.45%	8.62%	6.61%	9.68%
Gearing	60.49%	63.49%	64.89%	67.59%	62.23%	61.32%	65.51%	62.94%	67.21%

Note Gearing is notional

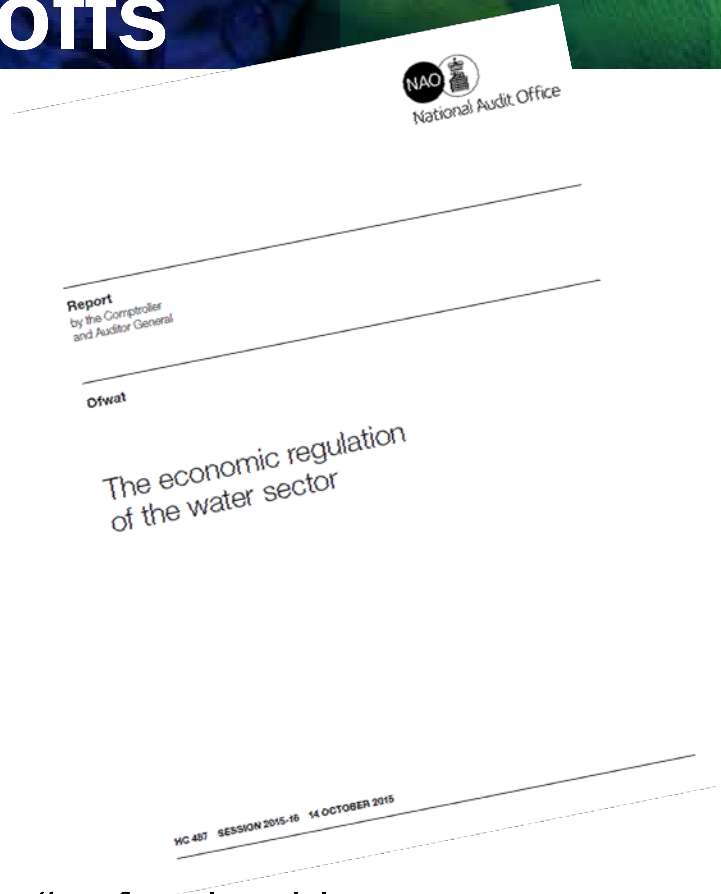
Understand the value chain!

Proposals to price elements of the value chain



Transparency on environmental tradeoffs

- Industry proud of its role as the largest manager of waste in the community
- But a driver of costs
- Need more transparent conversations the costs, benefits and willingness to pay for environmental outcomes


NAO National Audit Office

Report by the Comptroller and Auditor General

Ofwat

The economic regulation of the water sector

HC 487 SESSION 2015-16 14 OCTOBER 2015

“Defra should:
a develop further its assessments of the affordability and cost-effectiveness of environmental improvements.”

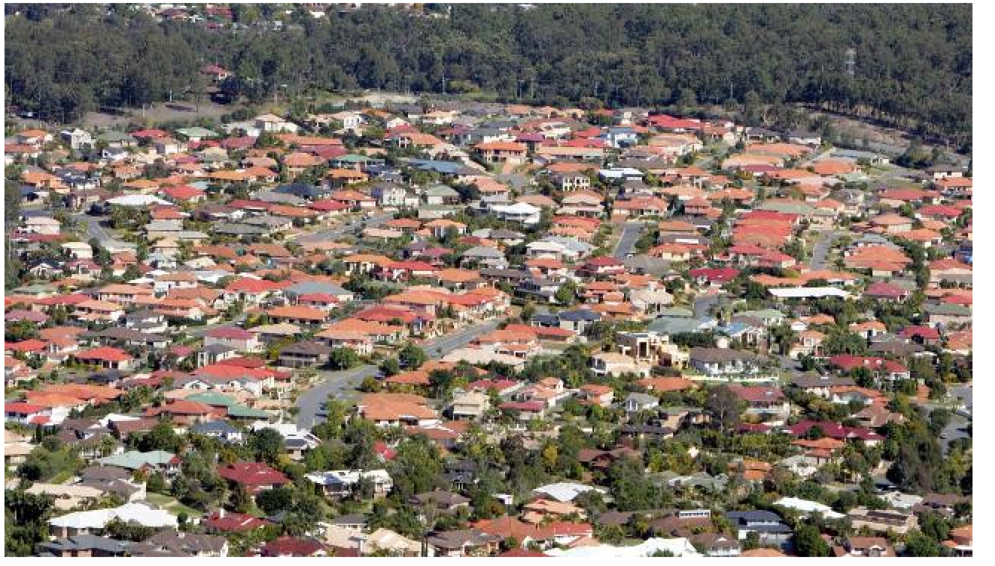
Pricing for competition

- Retail competition
- Third party access
- Precinct developments
- Urban rural trade
- Bulk water competition
- Contestability
- Yardstick competition

Does each state have the resources to work through these issues individually?

Paying for growth

- New growth areas cost more
- Who should pay?
  - Developers
  - New residents
  - All customers
- An issue in many jurisdictions



	Water Systems - Treatment & transport	Wastewater Systems- Treatment & transport
Low Cost area	1	1
Medium Cost area	1.5 times as costly	2x
High Cost area	3.5x	5x

How?

A national approach that:

- preserves best practice in states
- raises the bar across Australia
- collectively seeks to solve issues in a resource constrained environment

WSAA and Infrastructure Partnership Australia releasing a Urban Water Reform on 12 Nov in Parliament House Canberra

THANK YOU

WSAA mission

"WSAA will advocate, collaborate and innovate to deliver value for its members"

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Picture courtesy of Western Water