

CHALLENGES & CHANGE IN CWMS

John Comrie, CWMS Conference, Mount Gambier,
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1. Pricing: what's reasonable?

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- SA Water sewerage service recipients pay estimated \$520pa on average (approx)
 - ▣ Do CWMS service recipients pay more or less?
- Capital subsidy (State/LGA Subsidy Scheme) for new CWMS scheme essentially calculated on assumption that service recipients will pay same as customers would have for a SA Water sewerage scheme



CWMS Pricing: implications

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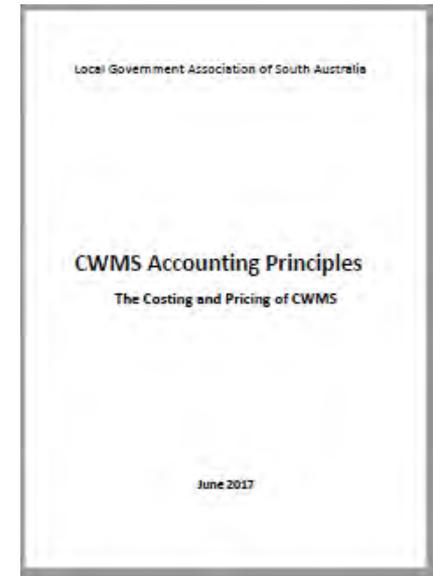
- If a scheme is charging materially less than SA Water:
 - ▣ Suggests may be undercharging
 - Assuming actual costs consistent with estimate on which subsidy was based
- If undercharging over long-run then that raises intergenerational equity issues & likely to create future challenges in terms of ongoing compliant service provision and asset renewal capacity



Compliant pricing

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- Should be based on long-run accrual accounting costs (incl depreciation), less interest plus cost-of-capital
 - Many have traditionally focussed on short-run cash-in / cash-out costs
- LGA has produced guidance
- Can't overcharge over time
 - Need to keep cumulative record
 - May involve historic estimates



Would SA Water be interested in acquiring CWMS?

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- Maybe, but possibly unlikely
- Only if commercially attractive to it
- Would presumably charge standard (country) sewer rate
 - Would operating revenue exceed operating costs?
 - May depend on asset value / cost of capital calculation
- SA Water was compelled to acquire TTG CWMS
 - Consideration was negligible



Why should CWMS fin performance be disclosed?

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- Recently became aware of 2 councils with significant water/sewer/electricity services
- Both were reporting reasonably satisfactory overall operating result
 - Yet when stripped of these utility services the municipal result was showing significant deficit and major ongoing financial issues
 - These utilities were regulated services
 - Income can't be utilised to cross-subsidise municipal and can't be increased beyond what's reasonable



Cost of Capital

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- Is an opportunity cost
- Does not show up as an accounting cost in AAS compliant financial reports
- Needs to be explained
 - ▣ Too easy for fin statement readers to be confused
- I would expect assumed real cost of capital (inclusive of risk) to be about 4%



Charging recycled water users?

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- Does making wastewater available for re-use add to overall costs?
 - If so CWMS users should not be charged for this extra cost
 - CWMS users should only be charged for most cost-effective, environmentally compliant service



Summary

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- Key to financially sustainable CWMS is inter-generationally equitable charging of beneficiaries
 - ▣ Doing so over time should ensure people pay similar to what they would for SA Water sewerage service
 - ▣ Price should have regard to long-term and not focus on cash costs
- Important to help elected councils and communities better understand fair and appropriate pricing considerations



Questions?

