Integrated decision making in urban water

An economic regulator’s perspective

Presentation to the National Water Forum

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About ESCOSA

- Independent economic regulator of essential services in SA
  - Water & Sewerage
  - Electricity
  - Gas
  - Rail
  - Ports
- Conducts formal public inquiries and provides advice to Government on economic and regulatory matters
- Primary objective is to protect the long-term interests of consumers with respect to price, quality and reliability of essential services
ESCOSA’s role in the water industry

• What ESCOSA does:
  – Regulates SA Water’s maximum revenues and customer service standards
  – Sets pricing principles and customer service standards for minor and intermediate retailers

• What it doesn’t do:
  – Regulate drinking water quality, environmental discharges, technical standards for infrastructure and the amount of water that can be sourced from various natural resources
Integrated decision making

• Economic perspective:
  – How to make decisions that best address trade-offs between multiple objectives, to deliver the greatest net benefit to the community?

• What are the outcomes that are being sought?
  – Public health requirements
  – Environmental outcomes
  – Social outcomes
  – Customer service
  – Value for money
What makes for a good decision?

1. Being clear about the problem/outcomes sought
2. Gathering a wide range of evidence
3. Legitimacy of process
4. Applying the best tool to target the problem
Defining the problem

• What are the outcomes that are being sought?
  – Outcomes, not inputs
    • E.g. least-cost water sourcing, s.t. security of supply requirements
  – What are the trade-offs?
    • E.g. economic vs social outcomes of water pricing reform
    • E.g. consumers’ willingness to pay for service improvements
      – How to integrate environmental, health and other outcomes into the decision?
Gathering the evidence

• ESCOSA relies on a wide range of evidence and views
  – Diversity of views makes for a more robust decision
  – Importance of formal and informal consultation processes
  – Community engagement is a means to an end

• Role of water business vs regulator in gathering evidence
  – Water retailers should understand customer preferences
    • E.g. SA Water customer support for improved regional water quality
  – Still need information from other sources though
    • E.g. technical information/advice
Legitimacy of process

- Importance of relationships
  - E.g. Engagement protocol with SA Water

- Importance of public consultation
  - Listening to stakeholders, addressing their views and explaining how they were taken into account

- Transparency of decision-making process
  - ESCOSA publishes all submissions and reasons for decisions, subject to confidentiality
Applying the best tool to the problem

• ESCOSA takes a risk-based approach
  – Regulation is not the default answer
  – The right tool depends on the context
    • E.g. ESCOSA review of small scale networks

• Role of incentives
  – E.g. public reporting of performance

• Importance of ongoing monitoring and evaluation
  – Need to make sure that regulation remains fit-for-purpose