

# **Inquiry into the Efficient Costs and Tariffs of the Water Corporation, Aqwest and the Busselton Water Board**

## **Department of Water Submission on Issues Paper**

### **Introduction**

Reduced inflows of water in our drying climate combined with strong population and economic growth have led to a need for significant new investments to augment water supplies. This has increased the cost of supplying water to customers.

The Department of Water (DoW) appreciates the increasing cost pressures in the water industry and the need to ensure that drinking water for essential human needs continues to be affordable for all Western Australians.

In this environment, it is particularly important that customers can have confidence that water utilities and their investments are efficient. This inquiry and its submissions and consultation are essential in providing confidence to customers that charges are as low as possible.

### **About this Submission**

The Department of Water (DoW) makes this submission in the context of its responsibilities to support the Minister for Water in:

- water policy and planning;
- regulation of water resource access and use;
- aspects of water services regulation, such as approval of water services licence exemptions and regulated water charges; and
- his responsibilities as shareholder Minister for government-owned water utilities.

This submission addresses selected matters arising from the issues paper where the DoW has comments that may assist the Inquiry.

### **Availability and cost of future water sources and environmental impacts**

The Water Corporation abstracted 138 GL in 2008-09, 110 GL in 2009-10 and 151 GL in 2010-11 from the Gnamptara groundwater system.

The *Gnamptara groundwater areas allocation plan* recommends that the long term allocation for the Water Corporation should be 110 GL per year from the Gnamptara system. Following the commissioning of the Southern Seawater Desalination Plant, the DoW is reviewing the allocation of groundwater for the Water Corporation, as foreshadowed by the plan.

Environmental impacts on local wetlands are managed on an annual basis by distributing abstraction away from environmentally sensitive areas. Water Corporation bores near such areas have been switched off and abstraction for public supply is moving away from the superficial aquifer towards the deeper, confined aquifers and coastal bores.

### **Inclining blocks vs. single usage charge**

The issues paper outlines a number of arguments for and against inclining block tariffs (IBTs). Among these, the issues paper states:

The problem with introducing a single volumetric charge is that this is difficult to determine, given the high degree of uncertainty about the marginal cost of water supply in Western Australia. Rather, there is likely to be a range of equally valid estimates of LRMC (and short run costs), depending on underlying assumptions about future supply, demand, costs and climate.

The paper is unclear as to how the use of IBTs addresses this problem better than, for example, subjectively choosing one of the valid estimates as a single usage charge. If the paper is suggesting that inclining block tariffs will lead to more effective price signals than a single usage charge, then the rationale for this should be clarified.

If IBTs are adopted, then choosing a range of IBTs that reflects the range of cost estimates is a valid consideration. However, it is unclear how the existence of a range of valid cost estimates is an argument against a single charge, except so as to avoid making decisions about choosing between cost estimates.

### **Drainage services**

Page 42 of the issues paper states:

There is a case for recovering the costs of any drainage expenditure mainly related to public benefits, such as programs to improve drainage water quality, through a separate drainage levy on all Water Corporation metropolitan water customers.

At present, some Water Corporation customers pay an annual drainage levy, while others do not. Yet, the benefits provided by drainage are largely public goods. Unlike water and wastewater services where customers are connected to a service, it is physically difficult to exclude individuals from receiving the benefits of drainage.

The downstream water quality benefits of well-designed drainage can be spread between a greater number of beneficiaries than the more localised flood management benefits and it could be viewed as fairer that the costs associated with water quality benefits also be spread across more people.

Both flood management and water quality management can, therefore, be seen as falling within the economic description of public goods, and the same plans and actions, through drainage services, often deliver both types of benefits.

However, in considering the most equitable means of recovering drainage service costs, it should also be recognised that, in addition to some Water Corporation customers paying drainage charges, some drainage water quality works are also undertaken by local government, paid for by local government ratepayers.

Consideration of the policy option suggested by the issues paper would need to take account of the contributions currently made by local government ratepayers.

Furthermore, other policy options may also exist both for the institutional responsibility for drainage management and for its funding.

In the previous tariffs inquiry, the ERA recommended a regulatory asset value for the Water Corporation's drainage assets. Understanding the basis for the starting regulatory asset value would help give greater confidence to people who pay for drainage, especially if changes to drainage charges were to be considered.

## **Affordability**

The State Government is committed to ensuring that drinking water for essential human needs continues to be affordable. The government and water utilities offer several measures to assist households that face difficulties or financial hardship, including:

- flexible payment plans;
- the Hardship Utility Grants Scheme (HUGS), which pays up to 85 per cent of a bill of an eligible water, electricity or gas customer facing disconnection;
- financial counselling; and
- concessions for pensioners and State Seniors.

On 23 February 2012, the Minister for Child Protection announced changes to HUGS to allow faster access to grants. \$10.3m worth of hardship utility grants have been issued since the program started in August 2008.

Some of the water consumed by households is essential for human needs. However the Productivity Commission *Inquiry into Australia's Urban Water Sector* found that per capita water consumption in Australia is well above generally agreed subsistence requirements.

The Inquiry found that that expenditure on water and wastewater services by households is consistently low over time as a proportion of disposable income. Increases in expenditure on energy, food and housing exceed the increase in expenditure of water. Price increases in water and wastewater services are likely to have had less impact on consumers than increases for other essential goods and services.

Low-income households have lower average water consumption and thus less discretionary water use than high-income households and may not be able to reduce consumption in response to a price increase to the same extent as households with higher consumption. However even for low-income households the total cost of water and wastewater services still represents a small proportion of income.

Assistance to the specific customers who do not have money available at the time of their bill (such as flexible payment plans and HUGS) effectively and efficiently assist customers with genuine payment difficulties.

### **Further information**

The DoW would be pleased to assist the Inquiry if required. Should the ERA require further information, the DoW contact for this submission is Warren Tierney, Economic Policy and Analysis, telephone (08) 6364 7146.