BUSSELTON WATER

protecting busselton's water

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Submission to Economic Regulation Authority: Draft Report – Inquiry into the Efficient Costs and Tariffs of the Water Corporation, Aqwest and the Busselton Water Board

Introduction
Busselton Water considers the price increases in water bills fair and reasonable given the operating expenses data base provided to the Authority in May 2012 which was based on the Strategic Development Plan adopted by the Board in October 2011 (with minor adjustments i.e. carbon tax).

However, there have been significant changes within Busselton Water and the industry as a whole that will have an adverse impact on the operating cost base over the review period. These impacts need to be reflected in the base model and the revenue structure adjusted accordingly. Some of the operating costs include:

- the CEO's salary package and its flow on effect to other levels of management, [redacted]
- the requirement to pay City rates equivalent to Treasury, estimated to be $90,000 over the review period;
- costs to implement a revised Strategic Development Plan including operational issues, information technology development and human resource requirements. The operational cost effect is estimated to be $500,000 over the review period; and
- additional costs, particularly compliance costs, associated with the implementation of new legislation. These costs may include appointment of staff to perform an monitor the prescriptive requirements.

Busselton Water has issues with a number of recommendations contained in the report as follows.

Rate of Return
Busselton Water proposed a real pre tax rate of return of 6.30 per cent whereas the Authority considers an estimate of 4.60 per cent is appropriate. The rate of return should be around the same rate as the commercial bill rate which is currently 5.00 per cent and reflects the true cost of capital to Busselton Water.

Regulatory Asset Values
Busselton Water considers by adjusting the regulatory asset value there could be a risk that it is considered anti-competitive. By lowering the asset base, the revenue requirement is reduced over the three year review period.

Capital Expenditure Forecasts
The Authority, through its consultants have identified that the cost of proposed works related to expanding supply capacity in 2012/13 is not an efficient use of capital and have discounted $1.82 million from the capital base for the entire three year review period. [redacted]

[redacted] Had the $1.82 million been allowed to remain in the capital base it would have provided approximately $250,000 additional revenue. Could the Authority please advise when this capital expenditure would be considered an efficient use of capital and be included in the capital base.

Operating Expenditure Forecasts
Treatment plant operating costs in excess of 3 per cent rate of escalation have been removed from the forecasts and operating costs for future water treatment plants. This reduction amounts to $800,000 over the three year review period. The costs in Busselton Water's submission included an additional $100,000 per annum for unspecified plant maintenance costs at the specific recommendation by the consultants Cardno and new costs associated with the CCTV inspection of two bores per annum. In addition, no allowance has been made for power costs escalation and chlorination above 3 per cent which is unrealistic.

Improvements to Price Setting Framework
The Authority has recommended a number of ways to improve the price setting framework. One of the recommendations is to "have water businesses take the revenue risk associated with getting their demand forecasts wrong". This is considered unreasonable as an amendment to forecasts may result from a change in circumstances rather than incorrect forecasts. If significant unexpected capital expenditure is required and this expenditure was not envisaged at the time of the Authority's review, then under the Authority's proposal, this expenditure would be reviewed in the following price review and would only be passed onto consumers if the Authority was satisfied that the expenditure option undertaken was efficient. This may result in maintenance and service provided by water service providers declining as an offset to the increased operating costs.

Increasing the length of the review period from the current three years to five years at the next review will also impact on water service providers ability to pass on costs to customers until the next review period.

It is recommended a risk assessment process be included in the review, to ensure there is not a decline in maintenance and service provided.

The recommendation to introduce a charter with the primary purpose to review and approve major capital projects places another level in the approval process for capital expenditure which is considered unnecessary.

Impacts on Busselton Water, table 5.8
The summary financial indicator "Debt/Total Assets" for Busselton Water in table 5.8 does not take into account the loan taken out for chlorination.

Taxation
The Authority needs to take into consideration the tax that is paid by Busselton Water on developer contributions and gifted assets. In addition, the asset should be included in the asset base for tax purposes.

Summary

We welcome the opportunity to meet with the Authority to discuss individual comments in more detail on the draft report.