

23 December 2013

**Inquiry into Microeconomic Reform in Western Australia
Economic Regulation Authority**

Submission in response to the Discussion Paper dated 8 November 2013

By Email:- publicsubmissions@erawa.com.au

Water Corporation welcomes the opportunity to comment on specific questions raised in the Discussion Paper released by the Economic Regulation Authority on the Inquiry into Microeconomic Reform in Western Australia.

The Corporation has reviewed the public submissions made in response to the Issues Paper released by the Economic Regulation Authority (ERA) on 9 August 2013. There are a number of key areas with significant potential for micro economic reform raised in the submissions. It is noted however that reform and restructure of the water industry in Western Australia did not feature highly in the public submissions.

Nonetheless the Discussion Paper poses the following three questions in relation to the structure and operation of the water industry in Western Australia. The Corporation's responses are provided below and draw largely from its responses to the ERA's Inquiry on Competition in the Water and Wastewater Services Sector undertaken over the period July 2007 to July 2008 and to the Productivity Commission's inquiry into microeconomic reform in Australia's Urban Water sector in 2011.

- 1) Are there any significant benefits to the current system, where water supply and demand responsibilities are dispersed between the Water Corporation, the Department of Water, and Government Ministers? Could these functions be better managed?

There are significant benefits of the current system because it provides clear separation and accountability for water resource management, water resource utilisation and regulation.

This framework continues to be reviewed and enhanced. For example the recent proclamation of the Water Services Act 2012 (WA) which is now the principal act governing water services in Western Australia and the current reform of water resources management legislation.

- 2) What are the costs and benefits of implementing water restrictions? Are there alternative approaches to maintaining security of water supply that may be more efficient or effective?

The Corporation supports the permanent water saving measures reflected in the Water Services Regulations 2013. These pertain to sprinkler rosters across the State and winter sprinkler bans. As an example, these measures currently save about 60 billion litres of water a year in Perth. They enjoy strong community support, reduce the impact on the environment and make economic sense. If

these measures were to be lost, an equivalent amount of source capacity would need to be built. The capacity increase would also need to grow over time to keep pace with a growing population. In addition to reducing State debt, sprinkler rosters help to contain price rises and maintain affordability of this essential resource.

The above regulations also provide for the Minister for Water to impose additional temporary restrictions in the event of short term supply shortage or water quality concerns. Wherever possible, the Corporation seeks to avoid the imposition of these measures due to the risk of more severe social and economic impacts. Other alternatives such as long term source development, carting, voluntary community campaigns, trading and water efficiency initiatives are deployed where possible to reduce the need to impose these additional restrictions. There are no temporary restrictions for scheme water supply in WA at present.

- 3) Are you aware of any other opportunities for reform of the state's urban water sector? If so, what are the likely costs and benefits of this reform?

The Corporation's objective is to maximise service levels with the resources it has available, which are governed by both the efficiency objectives and wider capital considerations of the State Government.

The Corporation supports the objective of increasing competition in the Water and Wastewater Services Sector by creating additional opportunities for private sector participation where it delivers value for money and improved customer service. It has actively pursued and benefitted from greater private sector participation. The Corporation uses competitive processes that result in the private sector delivering approximately 95% of its capital program and approximately 50% of its operations. For example alliances with private sector partners have been established to manage wastewater operations and a public private partnership has been put into place to treat water provided to the Goldfields area.

This contracting strategy has maximised service delivery outcomes for our customers and controlled costs, delivering year on year measurable productivity gains. Preparing for the development of new sources is expensive, time consuming and uncertain. The challenge is to create circumstances where the private sector will be willing to invest in developing innovative and viable projects while ensuring that there are sources/reuse/demand reduction options ready to be developed when additional water is needed. To ensure supply security, private sector participation needs to be complementary to the planning process, not a replacement for it.

The Corporation is of the view that the establishment of an Independent Procurement Entity as presented by the ERA in its Further Consultation Report dated 16 April 2008 does not provide additional benefits over and above the model the Corporation has used.

The model used successfully by the Corporation was specifically developed to facilitate private sector involvement in the provision of new water sources and wastewater treatment plants as part of an industry review undertaken in

2006/07. It was developed with extensive industry consultation and involves the Corporation undertaking planning and gaining regulatory approvals for the most prospective new sources, followed by a bidding process where the private sector can either bid to build, operate and own one of the planned sources, or any other source option they choose to develop.

If you require any further clarification or have any questions please do not hesitate to contact Deb Evans on (08) 9420 2451 or via email deb.evans@watercorporation.com.au.

Yours faithfully

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