



23 January 2017

Our Ref: W2498

Your Ref:

Enquiries: Joe Smith

☎ (08) 9780 9510

Ms Nicola Cusworth
Chair
Economic Regulation Authority
PO Box 8469
PERTH BC WA 6849

Email to: publicsubmissions@erawa.com.au

Dear Ms Cusworth,

SUBMISSION - INQUIRY INTO THE EFFICIENT COSTS AND TARIFFS OF THE WATER CORPORATION, AQWEST AND BUSSELTON WATER

In response to the Economic Regulation Authority's Issues Paper for the abovementioned inquiry (December 2016), Aqwest provides the following comments;

Chapter 3.1 - Regulatory approach for determining the revenue requirement

Aqwest is familiar with the 'building block' approach and does not have any issues with its use in determining the revenue requirement.

Aqwest does not have a preference for a pre-tax or post-tax pricing model. However, if a post-tax model is used, the Regulatory Asset Value used in prior inquiries should be recalibrated to fit a post-tax methodology.

The Issues Paper states the following:

"The ERA has not determined, in detail, how it will calculate each of the building blocks. The ERA may publish working papers and hold workshops on technical aspects of the building blocks or tariff structure during the inquiry".

Aqwest requests that it be notified if/when these workshops arise.

Chapter 3.2 - Operating efficiency targets / Chapter 3.7 – Managing material variances

The ERA has not previously recommended operating efficiency targets for Aqwest, but it is noted that as a part of this review, a target will be considered.

Aqwest requests that a framework be developed by the ERA to assist our corporation in times when material changes occur to operating or capital expenditure and revenue. The framework would ideally allow for:

- a) the review of such expenditure either before or after it is spent
- b) the impact on operating efficiency targets

- c) the impact on revenue requirements
- d) mechanism for changing water tariffs if required
- e) assigning responsibility for the management of variations

This is considered to have increased importance given the proposed five (5) year pricing path.

Aqwest considers material variances to be \$250,000 which is approximately equal to 0.25% of the written down value of Aqwest's consolidated fixed assets and investments as per audited accounts. This percentage is taken from s32(4)(a) of the *Water Corporations Act 1995*.


Queries on this submission can be directed to:

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Thank you for the opportunity to provide comment.

Kind regards,



Brad Bevis
CHIEF EXECUTIVE OFFICER