

20 January 2017

Nicola Cusworth  
Chair  
Economic Regulation Authority  
Perth BC, PO Box 8469  
Perth WA 6849

Dear Ms Cusworth,

**RE: INQUIRY INTO THE EFFICIENT COSTS AND TARIFFS OF THE WATER CORPORATION, AQWEST AND BUSSELTON WATER – SUBMISSION BY STORMWATER WESTERN AUSTRALIA**

## Introduction

This submission relates to the Drainage Business of the Water Corporation.

It is noted that the Issues Paper is silent on any issues specifically related to Drainage.

This is of great concern to Stormwater WA as over the past few years and particularly since the last tariff inquiry considerable work has been done both inside and outside government in recognition that the current governance arrangements for drainage management in WA are out-dated and are not delivering the most 'fit for purpose' maximised triple bottom line (3BL) solutions for the community.

This is particularly relevant due to the accelerated adoption of Water Sensitive Urban Design (WSUD) principles since the last inquiry in 2012. Also by the Government's commitment to these principles through its strong financial support to the Cooperative Research Centre (CRC) for Water Sensitive Cities.

Recognition that the current drainage governance arrangements were not delivering 3BL benefits and consequently a satisfactory outcome for the community date back to the early 2000's. This issue was first addressed in 2004 through the Minister of the day requesting a report under Section 16(e) of the EPA Act, which was released as EPA Bulletin 1131 – Drainage Management, Swan-Canning Catchment, May 2004. Despite many other publicly available and internal Government reports since then there has been no change to the governance arrangements for drainage since the corporatisation process in 1996. The new Water Services Act 2012 and associated regulations, apart from some minor tweaking, have not changed the principle arrangements in place since 1996.

Adoption of the principles of Water Sensitive Urban Design (WSUD) requires a complete redesign of the current arrangements for drainage management in WA.

It is submitted that drainage is a 'community service' to be delivered by Government and its delivery characteristics do not fit within the 'Utility Service' (for profit) business environment.

This work is already currently being undertaken both within Government and industry through the CRC for Water Sensitive Cities and other organisations.

This work needs to be investigated, evaluated and reported as part of this inquiry.

It is not acceptable for this inquiry to only report on the 'cost effectiveness' and consequent 'tariff requirements' of the current regulated business of the Water Corporation for its 'Drainage Assets'.

The remainder of this submission addresses the two key issues of SERVICE STANDARDS and COST EFFICIENCY/EFFECTIVENESS.

Service standards are addressed first followed by cost efficiency/effectiveness as it is not possible to work out the costs for the community until the revised service standards have been established.

## Service Standards

Provision of flood protection for the community and drainage to facilitate urban amenity and agricultural economic activity in rural areas is the responsibility of Governments. Throughout the world this 'service' to the community is delivered by 'local government', with assistance, usually in the form of planning and technical expertise and financial grants by both State and Federal Governments.

Prior to 1996 the State Government provided this assistance to local governments through the former Water Authority, which was a vertically integrated State agency.

This assistance was provided in the Perth Metropolitan area through the design and construction of urban 'Main Drains' and in rural areas of the Swan Coastal Plain and South Coast, west of Albany, 'Agricultural Drains', constructed by the former Public Works Department. Both of these systems were provided by the State Government on the basis of 'cost recovery' through the charging of 'drainage rates' to beneficiary land owners.

Due to political lobbying the drainage rates for the 'Agricultural Drains' were abolished by the Government of the day in 1992.

Due to the hydrology of the coastal plains of the south west of Australia, the principle objective of these drains constructed by the State Government was to manage groundwater levels to prevent land inundation in winter and thus facilitate agricultural activity and the urban expansion of Perth.

Local Governments remained responsible for all other aspects of drainage to service their communities.

Management of catchment drainage requires an integrated approach both to planning (land use) changes within a catchment and management of both the natural and constructed assets that manage the (drainage) water within the landscape of the catchment.

The (previous) dual management arrangements, between State and Local Governments, worked satisfactorily until the additional 'fragmentation' of the drainage governance arrangements that occurred with the creation of the Water Corporation in 1996, and its associated regulatory requirements.

At the time there was strong debate around where the drainage management responsibilities of the former Water Authority should be placed. It was recognised that drainage had different technical, operational and management requirements to water supply, sewerage management and irrigation provision, due to its interrelationship and reliance on natural assets (waterways). The planning and regulatory function was clearly to be placed with the (then) Water and Rivers Commission (now)

Department of Water, however It was recognised that there may be unintended consequential issues by the placement of the States 'drainage assets' with the newly formed Water Corporation.

However, due to time constraints on implementation of the new arrangements, the State's 'drainage assets' were 'initially' placed with the new Water Corporation, but a Memorandum of Understanding (MOU) was drawn up between the Water and Rivers Commission and the Water Corporation to cooperatively work together to establish longer term arrangements that delivered a satisfactory outcome for the community.

The 'temporary' nature of these arrangements was also incorporated into the drainage clauses of the Water Corporation's initial 'Operating Licence'. Broadly the Water Corporation was only required to manage the system it had inherited for conveyance requirements only and there was no obligation to expand the system to accommodate urban or agricultural development within catchments serviced by the (now) Water Corporation drainage assets. The licence also limited Water Corporation's responsibilities to only conveying 'minor' events within its infrastructure and there was (and remains) no mention of groundwater control which was the primary driver of the creation of these 'State Assets' in the first place.

Whilst the drainage clauses of the licence have been amended over time the intent and basis of the original clauses remain and this is a major issue in defining the 'boundary issues' for management between the Water Corporation and Local Governments for 'infrastructure management' and also for the Western Australian Planning Commission and the Department of Water in the planning of catchment land use change.

These issues have been further complicated by the advent of Water Sensitive Urban Design and the recent revision of Australian Rainfall and Runoff, which has vastly changed how stormwater and drainage is managed to achieve multiple community outcomes, only one of which is conveyance of rainfall runoff. Infrastructure requirements have changed from a focus on engineered infrastructure for conveyance only to 'integrated' designs for flood protection, ecological outcomes and 'community amenity' utilising as much of the natural drainage system as possible. Primary management is also now focused 'at source' rather than large detention infrastructure within the 'arterial conveyance' system.

There is thus an urgent requirement to redefine the SERVICE STANDARDS for drainage and clearly define the split of responsibilities between State Government entities, Local Government and the Water Corporation (a 'Regulated Water Utility', i.e. a commercial business required to return a profit to its owners/shareholders) before the costs of delivering that service to the community can be determined and how those costs are split between the 'delivery organisations'.

## Cost Efficiency / Effectiveness

It is noted that the ERA's role is to "ensure that regulated businesses with market power operate efficiently, provide reliable services and do not earn large profits".

It is also noted that, unlike economic regulators of the water industry in other States, the ERA only reports to and makes recommendations to Government on pricing and that the Government sets the prices.

Since corporatisation of the State owned drainage assets the Water Corporation has managed them, in accordance with its legislation and regulated business rules, to minimise costs and maximise profit/dividend to its owner, the State Government.

The costs for delivering this drainage service have also 'disappeared' within the overall accounting system of the Water Corporation and are no longer transparent to the community. Prior to corporatisation the former Water Authority reported its Water, Sewerage and Drainage activities separately.

Past ERA inquiries also do not contain sufficient detail for the community to understand how the pricing recommendations were determined.

The 2012 inquiry recommended that drainage tariffs be reduced from the then actual tariff of \$88.30 to \$74.47 for 2013/14. Then increasing by CPI to \$77.63 in 2015/16.

The Government has chosen to ignore the recommendation and has increased drainage charges by the same above CPI % as water and sewerage charges. The residential drainage charge for 2016/17 is now \$108. This is now approximately \$30 per residential property in excess of the 2012 inquiry recommendation. For the 400,000 Water Corporation 'drainage customers' this is an 'excess profit' of approximately \$12M additional to the ERA's recommended revenue requirement of \$36M. This is an additional 33% 'profit'.

This outcome places in serious question the ability of the current economic regulatory arrangements in WA to achieve the best outcome for the community, particularly in regards to drainage services delivered by a 'Regulated Water Utility'.

In the 2008/09 Tariff Inquiry the ERA explored the inequities and inefficiencies of the (still current) confused drainage management arrangements between the Department of Water, Water Corporation and Local Government. The Government ignored the rationalisation recommendations within the 2008 report and the issue was not revisited in the 2012 inquiry.

In accordance with the case made in the Service Standards section above the inequities and inefficiencies issues can no longer be ignored and need to be addressed as part of this inquiry.

For all other 'utility services' the 'customer' knows when they are receiving a service (or when they are NOT receiving a service that they are paying for) and where there is competition can chose their 'service provider'.

This is NOT the case with 'Main Drainage' services provided by the Water Corporation. The average community member/landowner has no idea whether they are receiving and paying for a 'service' or not. This is quite a different relationship to other 'customer services', where the customer has awareness and some control over the delivery and the amount/quantum of service they wish to receive.

As outlined in the Service Standards section the current State Government provided main/arterial drains were primarily constructed to control groundwater rise, but the current charging system determines whether landowners should pay based on 'surface flow' catchments related to the constructed main/arterial drainage infrastructure. Because of the unique hydrogeology of the Swan Coastal Plain groundwater may flow in different directions to surface managed flow. Thus rainfall that occurs in areas outside the 'charging areas', may also be eventually managed by the infrastructure, but these landowners currently don't pay a 'drainage charge'.

Another 'charging inequity' that has evolved as the urban expansion of Perth has occurred is the overlap of the urban areas into catchments service by the former (PWD constructed) Agricultural/Rural Drains. Thus landowners of new residential suburbs in the City of Kwinana (Bertram, Wellard, Anketell & Wandj) who benefit from the presence of the Peel Drain receive the benefit of a 'Government Subsidy' to the Water Corporation, whereas the landowners in the adjacent City of Rockingham benefiting from

'Government constructed' urban drains, constructed by the former Metropolitan Water Authority, are paying the excessive metropolitan drainage charge.

This highlights the issue of the inconsistency of the application of the original principal of 'cost recovery' where Government decisions over decades have not been revisited, even when the evolving inequities are in plain sight.

Thus the current system for charging land owners for protection from flooding, be it surface water flows as the immediate result of rainfall or groundwater rise as the result of long term rainfall needs an urgent review.

A further issue that needs to be addressed in this inquiry is the 'identification and valuation of drainage assets'.

As outlined in the Service Standards section the management required to protect the community from flooding and deliver 'liveable communities', comprises both planning and infrastructure management, both natural and constructed. This also requires an integrated approach within each catchment. Nature and water have no regard or respect for Acts of Parliament or land cadastre boundaries.

Division of responsibilities for management of a single hydrologic/hydraulic system between several entities with disparate and sometimes competing priorities and objectives is extremely unlikely to deliver an (cost) efficient and effective outcome for the community.

If you have more than one entity, how are the boundaries between responsibilities identified and then how are the costs apportioned or shared?

In regards to costs, how are they calculated in a 'commercial cost environment' as against a traditional Government 'Capital Works and operating costs environment'?

For drainage assets in the 'commercial environment', how are the 'assets' identified and valued. What is the 'Value Chain' treatment that different types of 'drainage assets' should receive?

For flood protection and drainage management the most valuable 'asset' is land area to accommodate the flood water when it is (infrequently) present. However that land can be used for many other community purposes between 'flood events'. How are these land assets valued against their drainage function? Is it just cadastre ownership?

Also with 'natural assets' such as channels (if designed correctly) there will be minimal 'operating and maintenance costs' and there is no need to depreciate them and make provision for its eventual 'replacement'.

Past drainage practice has been to have 'single purpose' drainage assets, however this is completely opposite to the now objective of Water Sensitive Cities. Drainage assets will be 'integrated into the landscape'.

To ensure complete cost transparency in this inquiry it is requested that the following information be reported:

- A listing of all Water Corporation 'Drainage assets', including land holdings for drainage purposes.
- The current 'Regulated Asset Value' of the Drainage Business, with a breakdown between the various 'classes of assets'.
- The value of current loans not repaid yet for the creation of drainage infrastructure.

- The current and projected Water Corporation operating costs for the current 'business model'.
- A review of how 'Headworks Charges' are determined and collected, and a recommendation on the quantum of the charge and the criteria to apply for its collection.

## Summary

Stormwater WA requests that the issues outlined in this submission be thoroughly evaluated by this inquiry.

Stormwater WA, through its executive committee, requests a meeting with the inquiry team and offers its expertise to the inquiry team.

Kind regards,

Bill Till  
State President, Stormwater WA