

CENTRAL COUNTRY ZONE and GREAT EASTERN COUNTRY ZONE



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Economic Regulation Authority

Country Water and Wastewater Pricing Inquiry

Submission

Shires of:

Beverley
Brookton
Bruce Rock
Corrigin
Cuballing
Cunderdin
Dowerin
Dumbleyung
Kellerberrin
Kondinin
Koorda
Kulin
Lake Grace
Merredin
Mt Marshall
Mukinbudin
Narembeen
Narrogin
Nungarin
Pingelly
Quairading
Tammin
Trayning
Wagin
Wandering
West Arthur
Westonia
Wickepin
Williams
Wyalkatchem
Yilgarn

Town of:

Narrogin

23 March 2006

Our ref: C-06-C
G-06-C

1. Background

The two Zones each represent 16 Councils, with Central Zone loosely based around Narrogin and Great Eastern Zone loosely based around Merredin.

In total, the Zones represent a combined population of just over 38,000 people, with the majority of business being centred on agriculture and supporting businesses.

The 32 Councils of the combined regions have many smaller towns, with many Councils having 2 or 3 townsites within their areas.

The agricultural areas have always struggled for equitable recognition, often being swamped by areas which have–

- the tourism attractions of the southern coast, south west, Kimberley and Pilbara
- the mining interests of the Goldfields and North West
- the booming development of sea-change destinations

The agricultural area rarely has issues that rise to State or national prominence, and yet forms a crucial part of the State's economy.

The Zones agree that there must be transparent accountability – there must also be equity and a fair go.

It has been disappointing that the discussion is driven mainly by “efficiency”, and “economics” with little mention of equity, or of basic rights of access for country people.

We consider that the pricing of water should be separated from discussion of the cost of producing water – the nearly \$400 million or more cost for a desalination plant is not a charge to the specific metropolitan consumers who will benefit, neither is the improvement works to access Harvey Water supplies or for Yarragadee.

Further, we propose that two fundamental changes of concept are needed. The metropolitan area –

- should justify why they should always receive favoured treatment, and
- has a responsibility to support regional WA

rather than regional areas having to constantly strain for and justify equitable treatment.

Cr Harry Gayfer
President, Shire of Corrigin
President, Central Country Zone

Cr Eileen O'Connell
President, Shire of Nungarin
President, Great Eastern Country Zone

Niel Mitchell
Executive Officer
Central and Great Eastern Country Zones

23 March 2006

2. Residential Water Pricing

Service charges

Given that the cost of manufacturing a meter is the same cost for Perth as well as for country residents, and that the time to fit a meter is the same, and it performs the same function, the Zones consider that the annual service charge should be identical throughout the State.

Uniform water charges

We propose that rather than just five town classes, that towns be classified into broad environmental categories. It is considered that the major external factor of a household that drives residential consumption is the environment – identical households and fixtures in Merredin and Albany, will have significantly different consumption patterns due to rainfall, maximum and minimum temperatures and humidity of the area.

To maintain an equal standard of identical household in Merredin will take more water than Albany, and the uniform threshold price should be set accordingly. Average use of identical households depends on factors outside of the resident's control.

The Zones would strongly endorse the comments of WACOSS on page 7 of the Report, however, we would argue that the affordability of "necessary" water should be at a uniform price.

The Zones strongly support the concept that appears to be outlined in the Executive Summary p.(i), that the cost for average usage should be the same across the State

We would query why country consumers should have to be aware of the cost of uniform pricing – there should be a underlying principal that there should be equal access to water at an equal price. The Zones see no reason for an awareness of the cost of water to be forced on country residents, that is not equally required of metro / urban counterparts, who continue to enjoy lower cost water, without thought.

The Report seems to equate payment of water charges and usage with a willingness to pay, however, this is an improper assumption. The Corporation has an effective monopoly on supply and a real monopoly on delivery. There is no viable alternative. The residents either live and work in a town or shift elsewhere. It is unfair, as some areas (such as Collie adjacent to Harris River Dam) will never require major works, while many country towns have failing infrastructure, and will be expected to pay for it. Towns like Kalgoorlie are under constant pressure for development and expansion of residential and commercial and industrial uses, and will be required to constantly pay extra for water.

It has been forgotten that these areas of growth do contribute the State's economy – directly through improved production or export, or indirectly through economic growth of the regions and alleviating pressure on high demand areas.

Additional costs militate against development of residential areas.

It is also inequitable that country areas should have to pay more for their water than Perth residents, as the cost of living compared to income is less. The disposable income of rural areas needs to be compare with metro net disposable income – we believe that the cost of living in the country is not reflected in higher capacity/earnings, and the Corporation proposes to compound this further, while handing further benefit to those who are already better off.

The advantage gap would be widened further.

All State residents have equal right to equal access for equal quality of water. Payment should be on an equal basis, with the only variable being volume. Corporation has acknowledged that they provide equal "safe" water, but also that other aspects (odour, appearance etc) may not be equal. Country

residents pay more for this lesser standard already, and it is proposed that they be charged additional further still.

Infrastructure improvements

The Zones strongly oppose towns having to pay for their water upgrades, as it penalises the towns that are developing and growing. Headworks charges is supposed to pay for construction of new or improved services.

Growth of an area has an indirect benefit to the State's economy – through export, improved production, or even if only alleviation of demand for land and services in the metropolitan area.

The increase in demand doesn't justify penalising that town by imposing higher water charges.

As noted above, "willingness to pay" is misleading, as there is no viable alternative. Water Corporation has an effective monopoly on supply as well as a true monopoly on delivery. The residents of the town either live and work there or they move. There is no real possibility of competition to provide the viable choice that would substantiate a claim of "willingness to pay".

It is also grossly inequitable as there are areas that are never likely to need significant water supply improvements (and therefore always have "low" cost water) but other towns such as Kalgoorlie that will need constant expansion as the town and industries develop and increase.

Recommendation –

1. **That towns to be classified into environmental factors, and used to determine the appropriate level of uniform priced water for that area.**
2. **That service charges for the same services be equal across the State**
3. **That a uniform pricing policy be established by legislation, that –**
 - **has an equal total cost for the assessed "necessary" water quantity**
 - **has the same price for each consumption band State-wide**
4. **That the concept of charging towns for the upgrade works required be rejected as inequitable and discriminatory, restrictive on growth and development, and creating significant imbalances.**

3. Commercial Water Pricing

Service charges

As with residential consumers, the cost of manufacturing a meter is the same cost for Perth as well as for country residents, and that the time to fit a meter is the same, and it performs the same function, the Zones consider that the annual service charges structure should be identical throughout the State.

Usage

Similar businesses of similar sizes in Perth and country will use similar quantities of water. Accordingly, the Zones see no reason why country businesses should pay higher consumption charges than their metropolitan counterparts, and suffer a significant business disadvantage from being based in the regional area.

Country businesses are more important to their local communities than businesses in the metropolitan area. Where Perth invariably has a multitude of businesses offering the same or similar products and services, the range of choice in the country area is much more limited.

Equally certain, is that their margins are slimmer, and their capacity to pay increased charges is smaller.

Accordingly, the Zones suggest that country businesses are individually proportionally more important to the economy of the surrounding region, than their city counterparts, and as such should not be penalised for choosing to be based in the rural area. We also note that some businesses or operations, have no choice but to be based in the rural area – hospitals, schools, grain receival points, recreation facilities for the community etc.

Equally, they should not be penalised for not having a choice of either location or water supplier.

It is accepted that there are businesses that require specific upgrade works such as a higher pressure or larger volume, and that these specific requirements should be at the cost of the enterprise.

We generally agree with the structure of service charges as outlined in Appendix 2 page 45 relating to commercial water tariffs, provided that the service charges remain the same as Perth.

We would also point out that if cost-reflective pricing were to be introduced, many towns without the ability to use treated wastewater in public areas, would find it prohibitively expensive to maintain parks, gardens, recreation grounds etc, thus compounding the reduction of amenity in the town.

Recommendations –

5. **That commercial water pricing should be determined on the basis of –**
 - **an annual service charge according to meter size (which varies according to demand for high volume and / or pressure), and**
 - **water usage**
6. **That environmental / climate factors not be considered when determining water usage charges for commercial water.**
7. **That an allowance be made for facilities (grounds, buildings etc) that have a community purpose.**
8. **That commercial water consumption charges and usage ranges be the same as for Perth.**

4. Residential Wastewater Pricing

Service charges

Given that the cost of manufacturing a meter is the same cost for Perth as well as for country residents, and that the time to fit a meter is the same, and it performs the same function, the Zones consider that the annual service charge should be identical throughout the State.

The Zones consider that the same basic structure should exist for wastewater pricing as for water –

- an annual service charge, plus
- a discharge rate, based on –
 - o GRV or
 - o percentage of volume of water consumed.

To charge according to one of four blocks, makes no differentiation between actual usage for a large property or a small property with the same number of residents.

Other suggestions would be to consider a charge based on –

- the number and type of fixtures – larger properties of identical design would therefore be paying the same amount regardless of town
- the volume of water consumed – extravagant users and discharge are therefore penalised, regardless of the standard or location of the property

It is considered inequitable that a residence not connected to a sewer line should pay the same amount as a residence that is connected – one makes use of the facility, and the other has not impact at all.

It is accepted that the availability of the line is a benefit or potential benefit to all adjacent landholders, and improves the property value. Hence, the Zones accept that an unconnected property, whether vacant land or a residence, having a sewer line available should contribute to its cost.

However, only properties connected and discharging into the sewer should pay above the minimum service charge.

Gross Rental Valuations

The Report notes that GRVs can vary markedly within a town, and between towns.

Despite this, it is considered that use of GRV is a reasonably equitable basis for assessing the variable component of wastewater discharge.

It is the Zones' understanding that the Valuer General's Office purports to assign values in a consistent and equitable manner across the State.

While it is agreed that values between towns may vary for identical properties, and therefore affecting the amount levied for wastewater discharge, it is suggested that it remains a reasonably fair system. A GRV based charge is essentially based on a capacity to pay – the large homes in premium areas that attract a higher charge than compact homes in less desirable areas, are owned by those that can afford the higher price of purchase and rates.

This also means that those with the capacity to pay contribute according to that capacity – a concept enshrined in the income tax system of the country.

If GRV is felt to be an unacceptable method of valuing a property by the Water Corporation, then perhaps the Valuer General's Office methodology of calculating the values and validity as the basis for land tax and local government rates should also be challenged.

Recommendation –

- 9. That the same basic structure should exist for wastewater pricing as for water –**
 - **an annual service charge, and**
 - **a discharge rate, based on –**
 - o **GRV or**
 - o **percentage of volume of water consumed**

- 10. That country residential wastewater service and discharge rates be the same as for Perth.**

5. Commercial Wastewater Pricing

Service charges

Generally, the principles outlined in Appendix 2 relating to commercial wastewater pricing are accepted.

It is accepted that the volume of wastewater from an identical business in the metropolitan area is likely to be very close to that of the same type and size of business in the country.

We would however, observe that a service charge based on number of fixtures has the potential to be highly inequitable.

Some business may employ a fair number of people, but use little water other than for human consumption (eg a metal fabrication shop), whereas a second business employing the same number of people may use a huge amount of water (such as a commercial laundry). Some industries may use a very large amount of water, but discharge little into the sewer (eg: plant nurseries).

Accordingly it is suggested that, in a similar way to residential wastewater, that the basic structure should be –

- an annual service charge per fixture, and
- a discharge rate, based on –
 - o GRV
 - o a percentage of volume of water by type of industry.

Many businesses have relatively high percentage of discharge water compared to consumption, whereas residential discharge is likely to be a lower percentage of consumption due to use on gardens, swimming pools and other domestic use not presenting commercial applications.

Discharge metering is unlikely to be feasible for residential, but may be for industrial commercial. However the cost of retrofitting may be prohibitive.

As with residential properties, the availability of a sewer line is a benefit or potential benefit to all adjacent landholders. The Zones accept that an unconnected property, whether vacant land or occupied, having a sewer line available should contribute to its cost through a minimum annual service charge.

Usage

As noted in the comments in relation to commercial water pricing, businesses in country areas have a disproportionate importance to their local community, compared to the city, and deserve to be encouraged to remain in the rural area, without being forced to the city due to unnecessarily high operational costs.

Accordingly, the Zone considers that usage charges should be the same for business of the same type whether city or country.

The Zone does not consider that the principal of “necessary” water applies to business or commercial operations, and that the concept should be limited to residential properties.

Recommendations –

11. That the basic structure for commercial wastewater pricing should be –
 - an annual service charge per fixture, and
 - a discharge rate, based on either –
 - o GRV, or
 - o a percentage of volume of water usage, according to type of industry.
12. That country commercial wastewater service and discharge rates be the same as for Perth.

6. Community Service Obligations

It is noted from the Report page 34, that the dividends paid to Government in 2004-05 exceeds the CSO payments to the Corporation from Government.

It is noted that the Corporations after tax profit in 2004-05 was up 9.1% to \$421.5 million. ¹

Given such an outcome, we believe it is difficult to justify any reduction in CSOs, or significant increases directed at country residents either as a whole or town by town.

We strongly support any move to embody the CSOs into legislation, and call for this to occur.

The Zones consider that the basis of the CSOs should be equal access to equal standard of water at an equal cost.

We suggest that the CSOs should be developed to provide equity for all residents regardless of where they live in the State, and should not be driven primarily by economic considerations of cost-reflective pricing town by town.

Recommendations –

13. That legislated CSOs be developed ensuring equality and equity for country residents.

¹ Water Corporation Annual Report 2004-05 page 50

7. Draft findings

Comments of the Zones in relation to Part 7 Draft Findings –

Draft finding	Comment
1	A formal commitment to uniform pricing needs to be made by the Minister and should be encapsulated in legislation
2	Agreed. Would have a significant detrimental effect on the country long term.
3	The development of better systems is supported. The imposition of town by town costs for water upgrading is strongly opposed, as being thoroughly inequitable.
4	Disagree. The price disincentives should apply Statewide after the assessed “necessary” water limit, and are just as effective in the country as the metropolitan area. There is no reason for additional discrimination for country consumers.
5	Strongly disagree, as the concept of requiring towns to pay their upgrade costs is unfair, inequitably applied, and the need varies from town to town. Towns vary in the frequency of need for upgrade, some infrequent and some are constant, and it is discriminatory to impose costs on growth and development of a region.
6	Refer comment above
7	Refer comment above
8	Agreed
9	It is disputed that they need to be linked to LRMC on a town by town basis. The State as a whole should form the basis of consideration.
10	The Zones consider that discounts should not be offered to large consumers of water. If the costs are too high, then the rate per kilolitre should be adjusted accordingly so that equity applies to all consumers.
11	No comment
12	Agreed that water is a business input, and agreed that it should be treated as any other input – provided it is on a State-wide basis. The Zones strongly oppose the assessment of charge thresholds and cost-reflective pricing on a town by town basis. It is an impediment only to economists and accountants, but equity across the State is essential for the country.
13	It is suggested that wastewater pricing be a combination of GRV pricing and a usage based charge. GRV is generally reflective of capacity to pay and would apply to vacant land as well as occupied properties.
14	The Zones strongly oppose a town by town delineation of costs. Charges and costs should be assessed State-wide.
15	Removal of cap is agreed, but not on the basis of cost-reflective pricing, unless on a State-wide basis.
16	While the information may be useful, the application of cost-reflective pricing in new development is not equitable. Headworks charges are supposed to cover the cost of improvements and infrastructure upgrade.
17	Cost reflective pricing should be on whole of operations, not town by town.

- 18 Removal of the cap for wastewater charges on high-value properties is agreed, so as to achieve consistency and equality across the State, regardless of whether metropolitan or country
- 19 The Zones see no reason for charges for the same standard of service to vary from town to town. It is agreed that commercial wastewater charges should be cost-reflective over the State as a whole.
- 20 The inconsistency should be resolved. The Zones have recommended that for both residential and commercial, charges should be a combination of –
- annual service charge (based on number of fixtures for commercial), and
 - a usage charge based on –
 - GRV, or
 - percentage of volume of water consumed (with type of business factored in for commercial)
- 21 Strongly disagree. The potential for provision of possible competitors to Water Corporation for wastewater service provision in country areas has not been established, and is considered to be non-existent for the vast majority, if not all, of the country area. The only possible competitors also have a monopoly, and the Water Corporation would never consider entering into competition with an existing provider.
- 22 Strongly agreed. The establishment of a uniform pricing policy based on equity rather than economics, should be formulated and legislated. With nearly half a billion dollars in after tax profit ², there seems little reason why the Corporation should need much in the way of subsidy from the State.
- 23 Strongly agreed, and should be directed towards a uniform pricing policy providing equal access and costs across the State, not town by town.
- 24 Uniform pricing policy should apply to commercial operations as well as to residential. Removal of caps is generally supported for all applications
- 25 It is agreed that CSOs should be made more transparent, and that cost-reflective analysis (not pricing) on a town by town basis would be useful in the highly unlikely event that a direct competitor to the Water Corporation should ever be interested. The opportunity for completion is theoretical, not real.

² Water Corporation Annual Report 2004-05 page 50, \$421.5 million, up 9.1%.

8. Closing comments

The Zones contend that operation of the much vaunted “triple bottom line” is often actively discriminatory in reality, as it still tends to focus attention on the rational and economic factors – attributes that can be measured and easily compared, rather than some of the intangibles that are just as important.

Until the non-economic factors are given equal or higher priority, they will always be pushed into the background. It is easy to be efficient, but much harder to be equitable.

The community factor of the Triple Bottom Line concept is poorly defined, generally misunderstood, and often used to mean quite different aspects. We suggest that social equity and community are not the same –

- social equity is a criteria that can be measured and is capable of being objectively assessed (as can the economic and environment factors),
- community is an intangible but real, sense of identity, and is much more subjective, although still essential

The concept of the "The Triple Bottom Line" is therefore deficient and inadequate, and should be expanded to “Quadruple Bottom Line”, now used by such organisations as National Australia Bank and Rio Tinto to name just two, and can be defined as –

The balanced sustainability resulting from the simultaneous advancement of –

- 1. Economic prosperity***
- 2. Environmental or ecological integrity***
- 3. Social equity / commitment –means appropriate standards of governance, and reasonable access to resources, services and facilities ³***
- 4. Community – the intangible but real, sense of belonging, ownership and satisfaction; community well-being as expressed through creativity, diversity of cultural expression and innovation ⁴***

Our observation is that the draft Report focuses largely on economic rationale. While passing acknowledgement is given to social equity (Customer Service Obligations), our perception is that the equity factor is essentially discarded as being too hard, too insubstantial to be able to quantify.

Consideration of the intangible community effects is absent. We cannot see where there has been an acknowledgement of the Water Corporation’s role, as a State owned agency and theoretically bound by good governance principles, in preserving communities and enhancing their way of life.

Appendix 4 refers to allocative, productive and dynamic efficiencies. The first is an administrative concept while the other two are engineering problems. They do not address equity, social or community issues and values.

The graphs of costs, while useful to assess costs, efficiencies and target areas for improvements, they are not relevant to the rights of people for equal access, and equal treatment, and do not justify the discrimination against country residents. Accordingly, they present a distorted and skewed view of the Water Corporation’s total responsibility to the residents of the State.

Again, paragraph 3 on page 50 (“Consumers will purchase ... until the last unit bought equals the price they are charged”) implies that consumers of water actually have a choice.

There is no viable choice. Consumers either pay, or they relocate to where it is cheaper (for the time being) until such time as demand increases and that town has to pay for the cost of improvements, and the cycle starts again. In the case of the monopoly on water supply that the Corporation has, all

³ http://comnet.org/midmeac/sustainable_business.htm and <http://www.global.rmit.edu.au/about/tbl/>

⁴ <http://www.arts.nsw.gov.au/WhatsNew/CPG-PAGES-final.pdf>

that the end result achieves is relocation from one town to another or to Perth. Which then puts Perth resources under pressure.

Noted that prices rather than costs of production are not identified by consumers, but the price of water is a production cost regardless of concept.

We would query whether the cost of water initiatives that benefit solely the metropolitan area or part of it, are identified as having to be specifically paid for by the metro residents, or if they are a cost to the scheme as a whole. If the principle of applying specific costs to a specific area is imposed on country residents, then consistency demands that the principle be applied to the metro area.

Water initiatives such as Yarragadee, the Gnangara mound, Harvey Water, Harris River dam, Kwinana desalination plant should therefore be charged out on the cost reflective basis according to destination of benefit – as is proposed for the country.

It would also be incumbent on the Water Corporation to ensure that the community informed that their price is higher in their area, than other parts of Perth as a result of cost reflective pricing principles. It should be relatively easy to separate out which areas benefit from which initiative, and change accordingly – thus applying the principles that are proposed for the country.

It should also apply to industrial areas such as Kwinana.

Our view is that if not, the principles of equality appear to be being applied inconsistently and selectively to favour metro consumers, to the detriment of country.

The Report mentions that higher prices will force consumers to value their water more highly, and reduce wastage. However, by a very large margin, the volume of water wasted has to be far higher in the metropolitan area than in the whole of country WA, simply on the basis of numbers.

If increasing costs in the country area is deemed to be likely to make consumers less wasteful, such a tactic would have much more success, and save a much larger volume in the metro area. It is suggested that the Corporation consider increasing metro costs to country costs levels, so that metro consumers are more aware of the cost of water supply and environmental issues.

Some of the discussion in the draft Report implies that a direct competitor to the Water Corporation should be catered for and anticipated. While it is an intellectual possibility and exercise, the Zones are not aware if there has there been any real work done on the likelihood of this ever occurring, identifying a potential entry into the market. It is our assumption that it would be remote in the extreme.

9. Appendix

Map of Central and Great Eastern Zones

