



Our ref: 22289

Mr Lyndon Rowe
Chairman
Economic Regulation Authority
Level 6, 197 St Georges Terrace
PERTH WA 6000

Dear Mr Rowe

SUBMISSION TO THE COUNTRY WATER AND WASTEWATER PRICING INQUIRY

Thank you for the opportunity to provide comment on the Economic Regulation Authority's (ERA) Inquiry on Country Water and Wastewater Pricing in Western Australia.

We have prepared for you a list of issues and principles which may be helpful in framing your final report recommendations.

1. The Uniform Pricing Policy (UPP) is expected to provide:
 - affordable cost of water across the State at a consumption level considered to be the minimum for basic human needs (water for drinking, cleaning and sanitation purposes); and
 - subsidised cost of water across the State, at a consumption level considered to be the average consumption of a household.
2. Any recommendations of the ERA should be consistent with these general objectives of the UPP.
3. However, the current approach to pricing for residential wastewater services, by determine a customer group's willingness to pay for an increased level of service, is marginally preferred, from an economic efficiency perspective, over the UPP approach for water services.
4. The intention of the UPP is not to provide further subsidies to country areas above and beyond that which is considered necessary for basic human needs and the average amount consumed by an average household.
5. The objectives of an efficient pricing mechanism, to recover sufficient revenue for the provider and provide an efficient cost to the customer, are supported.

6. The use of long run marginal cost pricing and the application of economic principles are generally supported for water prices, especially in the case of a monopoly service provider such as the Water Corporation. However, the limitations and administrative complexities for doing so in country areas in Western Australia is acknowledged.
7. When providing recommendations on pricing reforms, the ERA should, where possible, provide the Government with as many options and scenarios as is reasonable on all of its proposed pricing reforms. This will enable the Government to make an informed choice.
8. In preparing its options for reforms to the pricing structures, the ERA should consider options that do not result in high end consumers of water facing a decrease in price. Whilst this may cause a departure from strict economic principles, the Government should be provided with options to consider ways to continue delivering on its waterwise message, which could be considered to be 'diluted' if high end consumers were to face an overall price decrease.
9. Any transitional arrangements for customers would preferably be minimised. This is particularly important for tenants and pensioners, who are generally disadvantaged as a result of reforms to pricing structures.
10. The increased reliance on volumetric charges over fixed charges as a means to better reflect the price of water to customers is supported.
11. The suggestion by the ERA that country commercial water customers should not be subsidised is acknowledged. However, because of the current levels of subsidisation at present, the transition to full cost recovery may cause some businesses to become unviable. As indicated above is, it would be beneficial if the ERA were able to provide a list of options and anticipated impacts from a range of its reform measures to allow the Government to make an informed decision on this issue.
12. The lack of transparency in the Water Corporation's setting of country residential wastewater prices is acknowledged, irrespective of the relationship between community service obligation (CSO) payments and the Water Corporation's payments back to the Government (dividends and tax equivalent payment).
13. There would preferably be no increase in CSO payments to the Water Corporation as a result of the ERA's proposed reforms.
14. Any improvement to the efficiency of prices should be balanced with the objective of minimising administrative complexities. The balance of these two issues will be an important one for the ERA to consider in its final pricing recommendations.
15. Concessions provided to customers should be consistent across the State. Whilst the provision of concessions is a government policy, the ERA should consider how to implement this suggestion within the realm of its terms of reference.

16. Concessions provided to customers should as far as possible not distort pricing signals.
17. The Government would be interested in receiving advice on the impact of removing the pricing caps present for country residential wastewater customers. This would be particularly relevant for towns that have chosen to have a more advanced level of wastewater treatment.
18. The general principle of moving away from a gross rental value (GRV) based charge for residential wastewater pricing is supported, but the transitional effects on customers are not.
19. The balance between cost reflectivity for residential wastewater pricing, and uniformity is difficult and a range of options with varying balances between these two objectives would provide the Government with the opportunity to consider its preferred approach.
20. Improved transparency in the cost of wastewater in individual towns and the respective levels of cost recovery are supported but care must be taken when publicly reporting this information so as to ensure its context is correctly understood.
21. Wastewater costs for commercial customers would ideally be cost reflective, where the transitional issues could be adequately addressed.
22. The use of long run marginal cost pricing for wastewater prices is supported where it is appropriate and worthwhile to do so.

I trust this information is of assistance in developing the ERA's final pricing recommendations on country water and wastewater pricing. I look forward to receiving the final report.

Yours sincerely



DAVID HATT
CHIEF POLICY ADVISOR

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