

Inquiry on Country Water and Wastewater Pricing
Economic Regulation Authority
PO Box 8469
Perth Business Centre
PERTH WA 6849

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SUBMISSION BY: *Douglas Major*

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On the 16th of June 2004, Mr Winner from Western Power stated, "We have a uniform tariff policy so everywhere in the state you pay the same for electricity" (The West Australian).

If Western Power has this policy why can this not be adopted by the Water Corporation? Water is an essential commodity and should be available to all consumers at an **AFFORDABLE** price and customers should not be **PENALISED** for their choice of residential location. That is, tariffs should be equalized across all residential customers, regardless of their geographical location.

Compared to most other Australian states, WA's water prices are weighted more heavily towards the fixed charge component. In the Eastern States a greater emphasis is being placed on the use of price as a demand management instrument.

Furthermore, why is it necessary for government instrumentalities to make a profit, are they not there to provide a service? Does our public transport system operate at a profit? If not, why not? From published figures, the subsidy paid to private bus operators amounted to \$121.87 million and for our suburban train net, the subsidy was \$90.2 million. These subsidies will increase significantly once the Perth to Mandurah line commences operations.

Everyone in Western Australia will pay for these subsidies, with country people having very little or no opportunity to access these services.

Long Run Marginal Costs (LRMC)

Much has been written about this, but it would appear to be a very inaccurate science for the corporation to have so many estimates on urban water prices. Three of those estimates are as follows:

- Issues Papers on Urban Water Pricing (p. 79) 80-85 cents/kL
- Draft Report -- revised upwards 87-96 cents/kL
- Final Report (p.97) 41-120cents/kL

Forget about applying LPMC for every individual town in Western Australia. Let us apply a common sense and logical two block inclining tariff that applies equally and without discrimination to all residents of this great state. This would also bring Western Australia in line with tariff structures employed in other states.

On page seven of the Issues Paper on Urban Water Pricing the following usage figures are set down as follows.

- 0-150kL 32%
- 151-350kL 44.3%
- 351-550kL 17.7%
- 551-750kL 4.4%
- 751-950kL 1.3%
- 951+ 0.2%

As 94% of the residential usage in the metropolitan areas is between zero and 550kL, it is suggested that a two stage inclining tariff apply to the whole state with stage one being 0-550kL and stage two would be all consumption above 551kL. The price to be charged for these two block tariffs would be left for the authority and the Corporation to determine, along with the fixed charge fee.

In the final report on Urban Water Pricing, the current five block tariff has been reduced from five to two with the charges gradually reduced so that by 2010 they would be 82c/kL up to 550kL, and all above 550kL being \$1.20/kL. The writer contends that by reducing the top figure, which is currently set at \$1.517/kL to only \$1.20/kL, sends the wrong message to consumers for a scarce commodity. Surely any addition to the water supply for both metropolitan and country areas is becoming much more expensive and consumers should be encouraged to reduce consumption. By reducing the price for ALL water above 550kL, consumers are being encouraged to use more water, not less.

From Table 61:1 of the Final Report on Urban Water Pricing, it is noted that the following charges apply to commercial users:

Current Prices		2010 Prices	
0-600kL	0.728kL	0-600kL	0.820kL
601- 1 100 000kL	0.811kL	601- 1 100 000kL	0.820kL
Over 1 100 000kL	0.790kL	Over 1 100 000kL	0.820kL

Why does the price reduce for all water consumed above 1 100 000/kL from 0.811/kL to 0.790/kL? One would expect the more one used the more expensive it should become, not less expensive. This situation is due to be corrected in 2010 but if the corporation LPMC is

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between \$0.87 and \$0.96/kL, how can it justify selling it at \$0.79 or even \$0.820/kL in 2010?

From all reports the figure to deliver water from Yarragadee is going to cost between \$0.85 and \$1.07/kL. If it is possible to pump water from Yarragadee to Perth over 250km and allow metropolitan residents to pay no more \$1.20/kL for an unlimited amount of water, could you explain why it costs so much to pump water from Mundaring to Northam, York or even Kalgoorlie. The highest usage charges for the above towns are as follows:-

Location	Distance	Maximum Charge per kL
Yarragadee to Perth	250km	\$1.20
Mundaring to Northam	Under 100km	\$2.937
Mundaring to York	Approx 100km	\$4.771
Mundaring to Kalgoorlie	565km	\$5.688

To further illustrate that the price charged to country residents does not truly reflect the extra costs involved, I would ask you to peruse the following scenario. A person in York with a five acre property to accommodate a large family and a reasonable garden uses 1550kL water costing \$2738.65. However, should he subdivide the property into six residential blocks and the new owners build and each use the average 260kL of water, costing \$139.54 or a total of 1560kL of water costing \$837.24. This is a loss of \$1901.41 despite using the equivalent amount of water. If the figure was increased to 1950kL, this figure would be \$4266.25 for 1950kL, or if the six residents each used 325kL, they would pay \$163.07 or a total of \$938.42, a difference of \$3287.83. The same quantity of water is used and pumped over the same distance and yet the Corporation would suffer a \$3288 income loss.

Not only do the metropolitan residents have the advantage of cheaper water, but they sit upon an aquifer where bore water is easily attainable. On page 47 of the Issues Paper on Urban Water, the Water and Rivers Commission has advised that there are 135 000 garden bores in Perth, or 24% of residential properties. This is in contrast to many country areas where bore water is not readily attainable and in the majority of cases, is unsuitable because of the salinity levels of the water.

Page 28 of the Issues Paper on Country Waste Water, Table 6.1 details the following revenue/expenditure.

• Revenue from Country Customers	\$433 million
• Total operating expenditure on Country Operations	\$267million
• CSO Payments from Government for purpose of funding country operations (including concessions)	\$218 million

- Dividends paid to Government from Corporation's
Total Country and Metropolitan Operations \$312million

From these figures it appears the country operations generated a profit of \$168 million before you take into consideration the CSO payments of \$218million.

The total CSO paid to the Corporation in 2004/5 was \$288.3 million, which includes \$70.5 million to fund revenue concessions and the Infill sewerage program in the metropolitan area. Why does the Corporation receive CSO payments for the metropolitan infill sewerage program?

Why wasn't the desalination plant situated at Wellington Dam instead of Kwinana? Here we have the largest dam in the south of the state with a capacity of 188GL, which incidentally overflowed last winter. Currently this dam is not used for drinking water and provides about 70kL a year for irrigation. To do this the Corporation flushes up to 40GL out to sea from the bottom of the dam every year. This flushing is carried out to keep the irrigator's water as salt free as possible.

Furthermore, private enterprise is willing to construct a desalination plant at no cost to the Government and supply water to the Water Corporation at 60cents/kL. This is about half the cost from the desalination plant currently under construction at Kwinana. If the Government or the Water Corporation doesn't like private enterprise constructing a desalination plant, then why does it not construct one itself?

It is too late for the Kwinana plant, but before the second desalination plant is constructed using seawater, the option to use water from Wellington Dam must be fully investigated and costed. The proposal to treat the saline scour water is to pipe the water 20km down the Darling Scarp to Brunswick. The fall in height will provide enough hydraulic pressure to drive the osmosis process. No greenhouse emissions to the skies above the metropolitan areas because it would involve no use of expensive fossil fuel. Construction has not yet commenced on the Yarragadee option to supply Perth with 45GL of water. Surely Wellington Dam is a better option.

To summarise: It is recommended that serious consideration be given to applying a uniform two stage inclining tariff for all residential consumers throughout the whole state. Further, when any country town or the metropolitan area require an extension of their water supply, this is done from the Water Corporation Capital Budget and any adjustment of price is spread over all residential consumers irrespective of their geographical location.

Regards


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