



2 January 2006

Mr Lyndon Rowe
Chairman
Economic Regulation Authority
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Dear Lyndon

INQUIRY ON COUNTRY WATER AND WASTEWATER PRICING IN WESTERN AUSTRALIA

The supply and management of water to the Western Australian residential and organisational populations is a critical factor in the social, economic and environmental well-being of the State. An inquiry into the pricing of country water and wastewater is an opportunity to review not only the pricing structures but the integrated management of water supply and use and the role that pricing plays in sustaining the sound management of our water future.

The Australian Government, Department for Agriculture, Fisheries and Forestry magazine *Made in Australia* (November 2005) shows that one third of the worlds population live in countries where consumption exceeds supply by ten percent and that this trend potentially will continue so that in the next fifteen years two out of three Australians may be water stressed. This sort of information reinforces the need for an holistic review of water pricing and water management.

This submission will attempt to respond to the thirteen questions posed in the *Issues paper: Inquiry on Country Water and Wastewater Pricing in Western Australia* (Issues paper). The Goldfields Esperance Development Commission (GEDC) acknowledges that water pricing is globally a difficult and sensitive matter. Water pricing experts, economists, social welfare specialists and environmentalists can all contribute to the pricing debate, along with community developers and industry investors. The GEDC seeks to provide a general perspective that will assist in encouraging economic growth yet maintain social fairness and a sustainable environmental future for regional Western Australia. The mathematics of water pricing has not been explored.

In answering the questions from the Issues paper the GEDC has observed that:

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- The Economic Regulation Authority (ERA) has not asked simply for a comment on the current and future Water Corporation strategies but has sought new strategic approaches to water and wastewater pricing from the respondents. The Issues paper serves as a data collection instrument and a starting point for further detailed study.
- Discussion of Water Corporation as a monopoly service provider in Western Australia and the potential impact of this on pricing and service is not explored, particularly the impact of competition on cost efficiencies and service enhancements. As a monopoly provider the Water Corporation has a responsibility to ensure that it behaves as if it was operating in a competitive market to ensure fairness to consumers.
- There is lack of information in the Issues paper in several areas including the reasons for adhering to a tariff system, the transparency of the Community Service Obligation (CSO) calculation, the continued use of the CSO when the annual dividends paid to Government virtually equates to the CSO and the management of current and future headworks charges for commercial operations. Without this information the ability of respondents to answer the questions comprehensively is limited.
- Many of the questions will involve guess work by respondents because of the lack of readily available information or other detailed knowledge of water pricing, economic, environmental, and social impacts.
- The specific strategic objectives for the revised water and wastewater pricing in terms of the triple bottom line are not clear.
- Water Corporation documentation shows that demand seems fairly insensitive at the lower water consumption levels *Water Pricing* (www.ourwaterourfuture.com.au).

Additionally:

- Western Australians may not place a true economic and environmental value on water through current pricing arrangements and may need a stronger message about conservation and reuse.
- Future pricing arrangements for residential and commercial consumers must continue to cater for a variety of social, economic and environmental objectives but these objectives should not be met through pricing alone.
- Any future price increases could be balanced with expenditure by the Water Corporation on intensive residential and commercial conservation, private water collection and storage and grey water reuse programs. These programs could also be introduced in order to avoid demand management pricing.

- A significant opportunity exists to assist heavy water use industries to manage their resource and seek better ways of operating with less water, reused water or self collection and storage programs. This may need to be in association with Government agencies and industry associations and could utilise a cost offset incentive scheme.
- Commercial objectives of the Water Corporation may be impacted by conservation and reuse programs. The Water Corporation has shown that recent savings of up to 45 gL/year have cost the Corporation \$45 million in foregone revenue. *Annual Report 2003* (www.watercorporation.com.au).
- Introduction of more sustainable water and wastewater management systems could reduce long term dependence on CSO payments with dividends to the State Government reflecting true financial benefit to the State rather than a balancing payback of CSO's.
- Residential and commercial consumers need a clear picture of the immediate and long term cost structures and service provisions of water and wastewater. They also need access to a comprehensive yet simple program of reuse, storage and conservation options that will allow access to greater quantities of affordable (and environmentally sustainable) water and enhanced wastewater management at a reduced cost over a period of time.
- It should not be unrealistic to expect over the next decade that homes and businesses in Western Australia will incorporate grey water reuse appliances and rainwater or runoff storage as essential facilities. This will require pricing and incentive programs cooperatively developed and managed by the State Government and the Water Corporation.

Ultimately, while water and wastewater pricing may change and thresholds for water usage may vary, the real benefits of sound economic, social and environmental water management will only be achieved when residential and commercial consumers substantially increase water reuse and conservation processes. Price changes and water use behaviour management should be co-facilitated.

ISSUES PAPER QUESTIONS

1 Are you satisfied with the current application of uniform tariffs to all residential customers throughout the State who use up to 350 kL/year? If not, at what level of water usage would you prefer to see the uniform tariff policy apply?

The uniform tariff policy is possibly ineffective for a number of reasons.

These are:

- A tariff policy may encourage unwise use of water by individuals or households who would not ordinarily consume the to tariff level.
- Individuals consuming beyond the tariff level due to their location or other circumstances may be disadvantaged (without the CSO).
- The tariff may not reflect the true cost to deliver water and lead to a reliance on the water at this price, limiting options for price increases or pursuit by households of more water wise lifestyles.
- A tariff system does not reflect the true demand for water (a customer service requirement) and possibly negates impetus for pursuing grey water reuse or collection and storage systems and/or conservation approaches to meet the true customer demand for water.
- The tariff system requires CSO supplementation when ideally the water provider should be aiming for economic self sufficiency for the consumer.

The GEDC suggests the exploration of non tariff methods of managing the pricing and service of water delivery in regional Western Australia but recognises that the current system at least in the short term appears to be understood by residential consumers.

A recommendation on the level of tariff cannot be made in isolation of other information such as the real costs to provide water to the very varied areas of the State, the potential price of the water at the tariff level and enhanced initiatives that may be introduced to encourage grey water usage, conservation and investment in water collection and storage facilities.

Any new pricing system should incorporate a detailed practical conservation and water reuse program with obvious social, economic and environmental benefits to the consumer.

2 Do you think that the current approach of providing different thresholds to different customer groups for the purpose of charging prices that are more cost-reflective is appropriate? If not, what approach would you prefer to see applied?

In theory this policy appears to be fair, giving consideration to the special circumstances of individual households in the various social circumstances and water service locations. However there is a marked difference in pricing throughout the State. These differences are shown through highly subsidised Group B towns, subsidised Group A towns and the much higher price of water for usage greater than 751-950 kL/year in all regional areas. Furthermore there is a difference in pricing for pensioners, seniors and other low income earners and this again, varies between the Metropolitan area and Group A and B towns.

The reasons for these differences are evidently to reflect usage requirements in remote and regional areas, ability to pay of low income groups and cost recovery of service at the higher usage levels.

The concerns that exist for this policy are firstly that Group B towns continue to consume high levels of water relative to Group A or Metropolitan customers beyond the 550kL/year at increasing price points.

The lower charge for lower levels of consumption is almost balanced by the higher price paid for water at the higher levels. This is a pricing policy that is not moving forward to meet the real needs of the communities in this group. Incentives beyond those which are being provided at present should be introduced to assist these towns to collect and store water, increase grey water use and examine the water use trends with these users.

The differential pricing for seniors, pensioners and other low income earners in all regions should be consistent with their water use and income but include a component of water service delivery that includes education and physical and financial assistance to collect and store water, conserve water in the home and reuse grey water. These low income groups often lack the financial ability to install a rain water tank or grey water facility, replace washers or obtain fittings for garden hoses and this is where more assistance could be provided. They may also be renting or nomadic and these circumstances could be accommodated through a specific water service program.

As approximately fifty percent of domestic water consumption is used in the garden and fifteen percent in the toilet, *Australian Bureau of Statistics Water Account Australia* (catalogue 4561.0 www.abs.gov.au) these usage areas alone present opportunities for reuse water application to provide cost efficiencies for the low income earner.

The cost reflectiveness of the current pricing policy with the varying thresholds is difficult to determine without a complete knowledge of the true cost to supply water to the various regions and groups. Understanding that a CSO payment is required to support the current system, a long term approach to pricing that encourages independence of the water user from the CSO subsidy, yet maintains affordable access to water for all consumers would be ideal.

The increased use of individual water collection and storage, reuse of water and conservation would play a role in allowing consumers to access their preferred quantity of water at an affordable price and in an environmentally responsible manner. With the long term savings to the individual through this water management program, water accessed through the water provider could be charged in a cost reflective fashion with some consideration to social benefit where necessary.

3 Are you satisfied with the current charging arrangements for pensioners, who receive a 50 per cent concession on water usage up to 150 kL/year in Perth, 400 kL/year in Group A and 600 kL/year in Group B? If not, what alternatives would you prefer?

As discussed in question two pensioners and low income users of water in all areas of the State do require consideration in price setting for fairness and to allow a minimum standard of living. In Group A and Group B there are different patterns of water usage and these are reflected in the current charging arrangements.

However as discussed in question one setting levels may encourage water wastage where the individual household does not require the set amount.

Alternatively where more water is required the concession amount, where insufficient, may lead to hardship (such as for large families or remote dry areas).

An intensive program of other water use initiatives should be encouraged as described in question two.

4 Do you think that the current approach to setting country residential water usage charges above the uniform tariff threshold is appropriate? If not, how should those water usage charges be set?

The charges for country residential areas rise steadily after the 550kL /year mark for Group A towns and the 651kL /year mark for Group B towns. While this may reflect the true cost to deliver to these regions and attempt also to serve as a conservation incentive, Group B in particular continues to use a substantial amount of water at the higher price. Both groups receive significantly lower cost water for more than fifty percent of their water usage.

It may be appropriate to review the cost to provide water at all levels and establish a more balanced pricing structure that encourages conservation but allows real demand to be met without price penalty in the regions that require additional water use.

Additionally, pricing policy could incorporate incentives to adopt grey water reuse, collection and storage facilities as described earlier.

5 Do you think that the current approach to setting country commercial water usage charges is appropriate? If not, how should those water usage charges

be set?

The GEDC supports a price structure that includes not only the cost to provide water and the consumption needs of industry but other factors such as potential for environmental sustainability.

Anecdotal evidence suggests that in a number of cases headworks charges have proven prohibitive for small to medium size enterprises particularly during the early phase of their set up. Businesses that struggle with headworks charges and developing organisations that require short term assistance to manage their demand and their costs should be able to utilise a program that will work for them and the water provider.

It should be noted in reviewing commercial water price and usage that the new fire fighting water requirements of the Building Code of Australia (www.abcb.gov.au) to provide infrastructure for water pressure beyond 20 litres per second, fall outside of the Water Corporations responsibilities and are placing an additional cost on business operations in country Western Australia.

Commercial water pricing across the State is a complex matter and information is required on the cost to deliver the water, the associated headworks component of individual connections, the range of water usage and average use and also any allowances for expansion of conservation, reuse or collection and storage programs. Further information showing the various individual agreements that have been made between the Water Corporation, organisations or industry groups would also be useful.

Additionally, a pricing structure and an incentives program developed in association with country commercial Western Australia that encourages water reuse and conservation and recognises the particular needs of business operations should be supported.

6 Does the current classification of country towns into classes appear appropriate? If not, how should country towns be allocated to classes for the purpose of setting water usage charges?

The present listing has been established by cost to service each town. This does make sense from a cost/price basis but as many other factors play a role in water, wastewater usage and sustainable water management a new matrix of evaluation could be developed.

To examine the classification of country towns a detailed assessment of their potential for access to water, wastewater and future incentive programs for encouraging conservation, water storage and collection and grey water reuse must be made. Additionally, environmental factors such as rainfall, proximity to

catchment areas, temperature and a number of other factors should be considered.

This matrix could reflect the potential for a town to meet sustainability criteria, the need for subsidisation of the transition to a sustainable town and the immediate cost to meet the water and wastewater needs of the population.

7 What methodological issues need to be considered when setting usage charges that apply above the uniform tariff threshold for country residential water customers and for usage charges that apply for country commercial water customers?

As mentioned in question four it may be appropriate to review the cost to provide water at all levels and establish a more balanced pricing structure that assists in covering costs of supply, encourages conservation but allows real demand to be met without price penalty.

For commercial operations the headworks component of accessing water could also be modified and integrated into the cost of water to allow a more manageable cost structure for commercial organisations.

8 Is there a better way of identifying the extent that CSOs are paid for the purpose of funding cross-subsidised customers?

9 What principles should guide the payment of CSOs?

The CSO arrangements appear to have a social place and regional economic development role in Western Australia at present assisting with the water and wastewater costs in country Western Australia. The payment subsidises non profitable Water Corporation services and includes revenue foregone from rebates and concessions to low income earners and others who have exemptions.

It is interesting that the CSO connections amount to less than five percent of all Water Corporation connections and that CSO payments are almost balanced with dividends paid back to the State by the Water Corporation *Annual Report 2005* (www.watercorporation.com.au).

Ideally the water and wastewater provision for the State would exist without the CSO. This may be achieved over time by introducing incentives and systems that allow the pensioner and low income earners to meet their needs without assistance and the regional towns that require significant assistance to also gain a stronger water supply and recycling systems to minimise their dependence on CSO support.

The payment of CSOs should incorporate a long term approach to pricing that aims to recover the costs of existing service provision and future conservation and recycling programs while encouraging independence of the water user from the CSO subsidy and maintaining affordable access to water for all consumers.

The CSO payments should be guided by principles of social, economic and environmental sustainability.

10 Do you think that the way the water service charges are set for country commercial customers is appropriate? If not, how should these charges be set?

See question five.

11 Are you satisfied with the current charging arrangements for country residential wastewater services? If not, what charging arrangement would be more appropriate?

Residential wastewater charges in country Western Australia are based on gross rental values (GRV), the estimated rateable value of a property. This is an attempt by the water provider to achieve cost recovery of the service in each country town yet GRV may have little relationship with the cost to provide wastewater management.

Additionally for the majority of towns GRV is often not a true reflection of the saleable value of the home, the quality of the accommodation or the consumer's ability to pay.

Wastewater management does vary from town to town and the cost to establish and maintain wastewater systems can differ from location to location. The Water Corporation recognise this in their pricing.

Figure 5.2 (Issues paper) shows the average charges per town and the average operating cost (excluding overheads). This diagram shows that most towns are paying well over the operating costs with a small number of towns paying below the operating cost. It would be interesting to factor in overheads and see how the charges compare and also to determine why this pricing situation exists.

A charging structure should be introduced that is more reflective of short and long term costs and that incorporates new strategies to progress water reuse in each town while maintaining an acknowledgement of the ability to pay of the

consumer.

12 Should country residential wastewater charges be subject to a cap while metropolitan charges are not? If country residential wastewater charges are to be capped, at what level should this cap be?

Capping of charges for country consumers is provided by the Water Corporation to limit the impact of infill sewerage program costs (Issues paper).

Capping, in the short to medium term is useful for assisting consumers to manage their wastewater payments but should be tied to a charging structure that is designed for both cost recovery and promotion of water reuse by regional consumers as mentioned above.

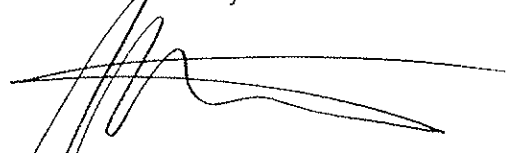
13 Do you consider that the Corporations commercial wastewater charges should be the same across the State? If not, how should these charges be set for country towns?

When the commercial wastewater charges are the same across the State they cannot be cost reflective and therefore are potentially inefficient. A volumetric charge is also more appropriate than a per fixture charge. Any charges must achieve a balance between addressing the real cost of supplying water and potential economic development outcomes for the State.

A significant opportunity also exists for water reuse for regional organisations and this must be accommodated through pricing/cost incentive programs.

The GEDC strongly supports the ERA's Inquiry on Country Water and Wastewater Pricing in Western Australia. The pricing review presents an opportunity to contribute to the sustainability objectives of the State Government and to further regional development through integrated and complementary pricing and conservation, storage and reuse initiatives.

Yours sincerely



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