



Department of
Industry and Resources

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**INQUIRY INTO THE COST OF SUPPLYING BULK POTABLE WATER TO
KALGOORLIE - BOULDER
ECONOMIC REGULATION AUTHORITY
Level 6 Governor Strirling Tower
197 St George's Terrace
PERTH WA 6000**

**RESPONSE TO THE DRAFT ERA REPORT - INQUIRY INTO THE COST OF
SUPPLYING BULK POTABLE WATER TO KALGOORLIE-BOULDER**

I refer to the above draft Report and the invitation for public submissions to be made by 29 July 2005. The Department of Industry and Resources (DoIR) appreciates the opportunity to comment, although it believes that the consultation process has been inadequate. Key stakeholders, such as DoIR, should have been given the opportunity to contribute to the process at an earlier stage. This would have allowed a fully rounded debate that would have allowed some of the issues and concerns raised in this submission to be addressed, especially the concern regarding a lack of transparency in the draft Report. The comments are based on the draft Report and the discussions held in a public forum in Kalgoorlie on 21 July 2005.

Overall DoIR is concerned that the draft Report is incomplete and that the Economic Regulation Authority's (ERA) draft finding - "that the benefits of the UUA proposal do not outweigh the costs" - if upheld in the final Report, could compromise the State's strategic objectives for regional development and enhancing competition in the provision of utility services.

Specifically, DoIR believes that the outcome of this Inquiry is extremely important from two perspectives. There is the opportunity to:

1. introduce competition into the supply of bulk potable water, along the same lines that has been achieved by the power procurement process used by Western Power Corporation in Esperance.
2. provide for growth in demand for potable water within the Goldfields sector of the Goldfields and Agricultural Water Supply (GAWS) Scheme and in the Esperance region.

The attached submission considers the methodology used by ERA, and responds where possible to the additional information or feedback sought by ERA.

From the State Government's perspective, one of the outcomes sought from UUA's proposal would be the demonstration that there would be no increase (and preferably a reduction) in the Community Service Obligation (CSO) payment under the present and future operation of GAWS. The actual net level of the CSO paid to the water Corporation (WaterCorp), and its use as a benchmark in the study, is not discussed fully enough in the draft Report.

From the discussion in Kalgoorlie, it appears that because the negative net present value of the UUA proposal was between \$55.9 million and \$142.6 million (see Figure 7.5 on page 34), ERA was concerned that a subsidy of \$100 million from Government would be required, and WaterCorp indicated that it would not be prepared to enter into a take or pay contract for a specified quantity or a price that exceeded the avoided costs, just to ensure that the UUA project proceeded.

Nowhere in the draft Report, nor in discussions with DoIR, has UUA sought preferential treatment for its project. This matter should be clarified by ERA with UUA.

DoIR believes if the following points are taken into account then the publicly expressed concerns of ERA and WaterCorp could be reduced, if not changed to one of giving encouragement to UUA to proceed to a bankable feasible study.

The percentage changes in benefits/costs required to breakeven are given in Figure 7.6 on page 34. DoIR proposes that these changes could be achieved or surpassed by ERA taking into account the following:

- **Avoided costs to WaterCorp – if increased by more than 9%**

The cost of source water should be valued at the highest marginal cost of water that the UUA proposal would replace. Assuming the long-run marginal cost is increasing and, therefore above long-run average cost, the sustainable price of supply is the long-run marginal cost. However, the cost of source water should be separated into existing supply and additional supply. Sound application of the cost-benefit analysis requires that:

1. existing supply is valued at the long-run marginal cost of GAWS and not the long-run marginal cost of the entire State's water system; and
2. additional water supplied to Kalgoorlie-Boulder is valued at the highest long-run marginal cost of GAWS scheme, including the highest marginal cost source water into Mundaring.

- **Benefits to mines and other industries – if increased by more than 21%**

It is only UUA that has had negotiations with mining companies to indicate the likely benefit of its project to their operations. The negotiations, however, have been of a preliminary nature, with more detailed contractual arrangements to be part of a bankable feasibility study.

The application of headworks charges to connect to the GAWS or Esperance water supply schemes is considered by DoIR to be a major disincentive to industrial users. The extent to which the starting level of demand will be 60 ML/day can only be evaluated when UUA has in principle foundation supply contracts signed by industry participants, including WaterCorp.

- **Costs to UUA – if decreased by more than 6%**

UUA is expected to refine its cost estimates once it has progressed its negotiations with capital equipment suppliers, and its energy provider, an outcome that can only be tested when a bankable feasibility study has been completed and approved by the Board of UUA.

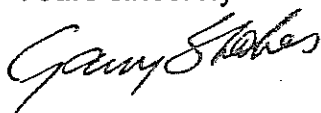
Confidence in the real Avoided Costs

The most important finding in the final Report by ERA will be the confidence that can be derived from this Inquiry about the real level of avoided costs to WaterCorp. With this finding WaterCorp and Government can measure the benefits of UUA's proposal to provide water in a cost competitive environment and, provide the opportunity for growth of the region's industrial sector. A fully transparent and verifiable analysis is required to give confidence to industry that chooses to invest in the region that it can access potable water in a cost competitive environment, and the community who chooses to live in Esperance can access water of a quality similar to most others in the State.

It is then for UUA to complete a bankable feasibility study and negotiate foundation water supply contracts with industry and WaterCorp to the satisfaction of the Board of UUA on the technical and financial risks involved; and to the satisfaction of the State Government with respect to supply and quality risks, and long term price movements relating to the market serviced by WaterCorp.

DoIR remains ready to support ERA in finalising its Report, and looks forward to discussing any of the aspects raised within this submission. Please contact Mr Ross Guyton on Tel: 9222 0589.

Yours sincerely



Jim Limerick
Director General

29 July 2005

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Attachments

**Comments from the DEPARTMENT OF INDUSTRY AND RESOURCES
on the Draft Report by the Economic Regulation Authority**

**INQUIRY INTO THE COST OF SUPPLYING BULK POTABLE WATER
TO KALGOORLIE - BOULDER**

Overview

Page 1 indicates that the Report provides the results of a comparison of the cost and benefits of two options for the future supply of bulk potable water to Kalgoorlie-Boulder:

1. an expansion of the Goldfields and Agricultural Water Supply (GAWS); compared with the
2. United Utilities Australia (UUA) proposal to provide desalinated sea water via a pipeline from Esperance to the Kalgoorlie-Boulder region (the UUA proposal).

Based on the information provided by the Water Corporation (WaterCorp) and UUA, the Economic Regulation Authority (ERA) has made a preliminary finding that the cost of the UUA proposal outweighs the benefits of supplying water to Kalgoorlie-Boulder. ERA has asked for feedback on the methodology used.

Models available for use

The Department of Industry and Resources (DoIR) notes that the net benefit cost model adopted by ERA (Figure 3.3 page 14) is but one of several that could be used. UUA proposed the comparator model, which ERA was inclined to reject – Section 4.2 pages 21 and 22.

Another appropriate methodology is **cost function analysis**. DoIR provides the following commentary for consideration by ERA.

Cost function analysis

Cost function analysis is a well-established and highly rigorous econometric framework that provides estimates of the long-run marginal and average cost, returns to scale and the economic value of incremental expansion of the State's water supply.

These estimates can then be used to cost a wide variety of alternatives as well as provide a cross-check on the Report's inherently uncertain conclusions. A convenient list of references is provided by Professor Steven Renzetti and Diane Dupont in their paper, *The Relationship between the ownership and performance of municipal water utilities* (refer to URL: http://139.57.161.145/papers/2002_10_DD_SR.pdf). The following extract from their reference list;

- Ashton, J.K. (2000). 'Cost efficiency in the UK water and sewerage industry', *Applied Economic Letters* 9, 455-458.

- Bhattacharyya, A., Harris, T.R., Narayanan, R. and Raffiee, K. (1995). 'Allocative efficiency of Rural Nevada Water Systems: A hedonic shadow cost function approach', *Journal of Regional Science* 35(3), 485-501.
- Feigenbaum, S. and Teeple, R. (1983). 'Public versus private water delivery: a hedonic cost approach', *Review of Economics and Statistics* 65, 672-678.
- Garcia, S. and Alban, T. (2001). 'The structure of municipal water supply costs: application to a panel of French local communities', *Journal of Productivity Analysis*, 16(1), 5-29.
- Renzetti, S. and J. Kushner (2004) 'Full cost accounting for water supply and sewage treatment: concepts and application' *Canadian Water Resources Journal* 29(1), 13-23.
- Saal, D. and Parker, D. (2001). 'Productivity and price performance in the privatized water and sewerage companies of England and Wales', *Journal of Regulatory Economics* 20(1), 61-90.

Comprehensive information

In the interests of State development, DoIR believes that any final determination should be based upon the most comprehensive set of information available. From the draft Report, it is not known the extent to which ERA has had access to sufficient information to conduct an accurate assessment.

On that point, DoIR is concerned about the general lack of detail in the draft Report relating to the GAWS total cost (capital and operating expenditure). The provision of accurate information relating to the GAWS option is particularly crucial as it is the benchmark against which other options are evaluated. Indeed, rather than providing a detailed account of the total cost of the GAWS, the ERA presents a summary of two costing methods provided by the Water Corporation:

1. projected capital expenditure; and
2. the notional cost model.

Pages 17 to 20 (inclusive) present results from the models without an extensive discussion of the assumptions underlying the results. In addition, the extent to which the models use contemporary data to derive the results is vague. Consequently, it is difficult to assess the robustness of the ERA's conclusions.

Time series history of costs and water supplied

Another advantage of the provision of comprehensive data is that it would allow other costing methods to be used to verify the Report's conclusions. In particular, data on historical quantities of water supplied to the Kalgoorlie-Boulder region together with the full time-series history of the total cost of the GAWS. Doing so would enable a greater appreciation of the risks involved in the commercial supply of water.

This, in itself, would benefit State development by providing better quality information with which to make investment decisions. In addition, the application of other costing methods would serve to ensure the results of the cost-benefit analysis provided in the Report are as accurate as possible. For example, time-series cost and operating

expenditure data together with the quantity of water supplied would allow applications of the well known cost function approach.

Marginal cost pricing

ERA has chosen to use a Long Run Marginal Cost model to determine the cost of source water for existing demand (75c/kL at 6% discount rate) and cost of source water for growth (92c/kL) (pages 17 and 180). This assessment involves assumptions about the average cost of water to be supplied from a range of sources, namely surface water run-off, groundwater extraction and desalination plus the cost of piping that water to Mundaring.

The cost of source water should be valued at the highest marginal cost of water that the UUA proposal would replace. Assuming the long-run marginal cost is increasing and, therefore above long-run average cost, the sustainable price of supply is the long-run marginal cost. However, the cost of source water should be separated into existing supply and additional supply. Sound application of the cost-benefit analysis requires that:

1. existing supply is valued at the long-run marginal cost of the GAWS and not the long-run marginal cost of the entire State's water system; and
2. additional water supplied to Kalgoorlie-Boulder is valued at the highest long-run marginal cost of GAWS scheme, including the highest marginal cost source water into Mundaring.

Demand for water

In addition to more detailed cost information, it is necessary for the public to develop a good understanding of the WaterCorp's forecasts of the future demand for water in the Kalgoorlie-Boulder region. Figure 1.1 on page 4 of the Report provides some information, but this is insufficient to assess the likely accuracy of the forecasts. Presumably, the forecasts are based on intensive econometric analysis of historical data with a rigorous calculation of the upper and lower bounds of the forecasts. More detail on how the forecasts are derived is needed to assure the public that the WaterCorp is able to meet the needs of the Kalgoorlie-Boulder region in a way that maximises economic growth.

One recent example of the extent to which potable water is used by the mining industry is the \$1.4 billion Ravensthorpe Nickel Project plant now under construction. This project requires a 40 km seawater pipeline and desalination plant to produce about 13 ML/day raw seawater (35,000 mg/L TDS) and 6 ML/day of potable water (210 mg/l TDS) (Source: EPA Bulletin 1093 April 2003.) In the absence of alternative sources of water, it is understood that to provide the process water required at this site will cost about \$45 million in capital costs alone. There would be extra operational costs and costs in providing protective measures to equipment and piping.

DoIR is concerned that the current headworks charges policy may result in projects constructing their own water supply infrastructure, with the result that there is over investment in isolated infrastructure should proposals, such as the one UUA is considering, not be given the opportunity to determine the technical feasibility and financial viability of a project in a competitive market.

Headworks charges

The extent to which demand for water in the Goldfields-Esperance region is being constrained by the existing policy of levying a headworks charge for the development of regional scheme infrastructure has not been addressed in the draft Report. A new industry that requires 1 ML of water per day from the GAWS or Esperance schemes, would be levied a headworks charge of about \$14.6 million. A major user of water in the Goldfields, such as a large gold producer, could use 3-5 GL of water annually and would incur a headworks charge of between \$120 million to \$200 million. Hence, major water users in the Goldfields access hyper saline groundwater and incur costs of \$3.30 to \$4.00 or more per kL to treat groundwater.

The ability to provide large potable water supplies to new industrial customers is one potential benefit not available under the continued operation of GAWS by WaterCorp.

The full extent to which industry will buy potable water can only be determined by UUA proceeding to the bankable feasibility study stage, and entering into contracts with specific companies and WaterCorp as foundation customers.

Real discount rates

ERA has chosen to use real discounts rates of 4%, 6% and 8%, whereas UAA had used 8%. DoIR suggests that ERA could also evaluate the projects with discount rates of 10% and 12% to reflect the rates the private sector uses to assess the commercial robustness of a project. This would also provide a better indication of the sensitivity of the findings.

Community Service Obligation Payments

It is unclear from the draft Report as to how the Community Service Obligation (CSO) payment is taken into account. In the first dot point of page 39, ERA reports that there is a potential change to CSO payments from Treasury to WaterCorp for the whole of the State but....*"the final impact of this change is small since each dollar of CSO payment, 89.5c is returned to Treasury as a Tax Equivalent Payment or as a dividend."*

In Figure 8.2 on page 40, WaterCorp indicated that the CSO Budget for Kalgoorlie-Boulder was \$26.8 million in 2005/06 and CSOs totalling \$6.5 million were received for Kambalda, Coolgardie, Norseman and Ora Banda. There is no indication provided by WaterCorp as to the amount of Tax Equivalent or dividend that would be paid from GAWS, and hence determine the real net value of the CSO payment for the relevant sections of the Goldfields – Esperance region.

Commercial Terms- Esperance Power Procurement Process

Understanding the impact of the application of headworks charges and the net cost of the CSO payments to WaterCorp for the operation of GAWS and Esperance schemes are important components influenced by the UUA proposal. There is the opportunity to reduce the level of CSO payments as well as grow the demand for potable water from users not currently taking water from GAWS or restricted by poor quality water supplies in Esperance.

When interpreting the draft findings of the Report at a public forum in Kalgoorlie on 21 July 2005, ERA noted that the findings as summarised in Figure 7.5 on page 34, indicated that a net present value cost of \$55.9 million at the high initial demand forecast of 60 ML/day (at a discount rate of 6%) or \$142.6 million at a lower level of initial demand of 45 ML/day. Thus to make the UUA project benefit-cost neutral, ERA indicated that it would require an upfront subsidy of \$100 million from Government.

At the same forum, WaterCorp stated that it would not enter into a take or pay contract, or pay more than the avoided costs for water supplied by UUA just to make it a viable project.

At no stage has DoIR been made aware that UUA has or will be making demands on Government to subsidise the project by way of a capital grant or non-commercial supply contracts with WaterCorp. ERA is encouraged to confirm or clarify this matter with UUA.

DoIR asks that ERA note the experiences of Western Power in its Power Procurement Process (PPP) to find an alternative source of power in Esperance. At one stage the Port Authority provided its own 6MW power generating capacity because it could not reach a satisfactory commercial arrangement with Western Power.

The outcome of the PPP process is that a private contractor (BRW) successfully entered into a commercial arrangement to supply Western Power and the Port Authority from a gas fired-power station with gas delivered 350 km from Kambalda (note that the gas is sourced from as far away as Onslow). This infrastructure now provides the opportunity for UUA to consider its project with much more confidence in its ability to power a desalination plant at Esperance and the several pumping stations required to get potable water to Kalgoorlie.

This is just one example of competition being introduced into the delivery of utility services, with the private sector responding to the Government's deregulation policy.

Local and regional economic and social impact

Relevant Government Policy

ERA's attention is drawn to the attached outcomes sought by Government with its current ***Regional Policy – growing a diversified economy:***

- **Outcome 7 – Enhanced Regional Investment**
- **Outcome 8 – Fair Pricing for Regional Residents and Business**

In the Goldfields Esperance Region in 2003-04, some \$4.3 billion of mineral resources were produced, with gold and nickel the main minerals. This represents 16% of the total value of the State's mineral and petroleum resources produced in that year (Source: DoIR – WA Mineral and Statistical Digest 2003-04.) Adding value to these minerals involves extraction, concentrating and refining processes all of which require water.

As noted earlier, the Ravensthorpe Nickel Project plant needed about 13 ML/d raw seawater and 6 ML/day of potable water. A similar project is being proposed some 85 km north of Kalgoorlie, and there are expansions to existing gold and nickel mines as well as the revamping of the former lateritic nickel processing plant at Bulong some 30 km east of Kalgoorlie.

In the interest of attracting even more value adding industries in the region, industrial precincts have been established at Mungari (13 km east of Coolgardie) and at Shark Lake (20 km north of Esperance).

If the UUA proposal proceeds, it would provide the opportunity for prospective industries to at least consider obtaining potable water in a cost competitive environment.

DoIR has limited empirical data at hand to demonstrate the potential for UUA's proposal to generate new industries that can be measured with the degree of certainty and rigour that ERA has applied to the information that UUA and WaterCorp have provided already. As a result, DoIR has focused on the assumptions used in the draft Report and some of the policy implications associated with the existing GAWS and Esperance schemes.

Prepared by:

Department of Industry and Resources
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29 July 2005

Attachments

Outcome 7: Enhanced Regional Investment

Outcome Priorities

- Increased commercial activity and interest in regional investment opportunities.
- Increased investment in regional Western Australia.
- Increased exports from businesses in regional areas.
- Increased numbers of regional jobs created.

Strategies

- Market regional investment opportunities within the regions and to Perth, other states and overseas.
- Resource and undertake regional investment tours.
- Promote investment in regional industries, including mining, agriculture, tourism, aquaculture, timber and fishing.
- Undertake research to attract investment in new and emerging regional industries.
- Develop the export readiness of companies in regional areas.
- Minimise constraints and encourage a positive climate to attracting investment in regional areas.
- Provide an adequate supply of land for the expansion of residential, commercial and industrial uses.
- Develop a coordinated regional and promotional approach to attracting potential business migrants.

There is a continuing need to attract investment into regional areas that will build and strengthen infrastructure, create new business and employment opportunities, and expand exports.

Investment proposals in the State's major export industries of mining and oil and gas will continue to be vigorously pursued and supported together with opportunities to increase the level of exploration expenditure. A strong emphasis will be placed on encouraging companies to work closely with regional communities concerned, to maximise local purchasing, enterprise development and employment in relation to new and existing mining developments.

The agricultural sector has tremendous investment potential for the future, and opportunities will be pursued particularly with regard to the introduction of new crops and further processing for the growing Asian markets. The success of tree farming trials across the State has prompted the development of a strategic commercial venture. *Infinintree*, the new tree farming initiative, will provide much-needed farm diversification opportunities and offer solutions to serious land degradation problems such as salinity, waterlogging and erosion. The Government will continue to encourage and provide support for new investment proposals in the timber industry, together with training and other assistance for communities affected by structural change in the industry. Through *Infinintree*, the Government will be in a stronger position to attract the attention of the growing number of ethical investors.

The many opportunities in the other major regional industries of tourism, fishing, horticulture and viticulture will also continue to be researched and promoted, as well as those in emerging industries such as aquaculture, information technology services and the provision of power.

In attracting investment, regions encounter particular constraints, such as low populations; narrow regional skills base; isolation and distance; availability of transport; access to appropriately zoned land; and cost, capacity or quality of available infrastructure. The smaller scale of many regional investment proposals also makes it difficult to attract outside investors or financiers.

These constraints emphasise the need for a strategic, targeted approach to attracting new investment, covering parallel work on minimising constraints and maximising the promotion of opportunities. For example, the State Government will complete the organising and funding of investment tours to each of the nine non-metropolitan regions, working through individual regional development commissions. These tours, which carefully 'match' the local investment proposals and the Perth or Eastern States visiting potential financiers, are proving very effective in exposing regional investment opportunities to funding possibilities.

The cost of headworks connections in regional areas for power, water and other utilities continues to be a disincentive for new business investment, particularly for the first proponent to enter an undeveloped area. The Government has now confirmed funding of a scheme to reduce costs, following submissions to the *Draft Regional Policy Statement* and other representations on this matter.

The approvals process for industry projects will be simplified and streamlined to reduce costs, time and uncertainties involved. However, there will be no erosion of the assessment of social and environmental impacts of the project. The new process will remove duplication and overlap of approvals processes, improve the timeliness of approvals, and make information on the processes for projects more readily and publicly available.

State Government development agencies are pursuing development opportunities statewide through a coordinated, strategic approach. Regional development commissions will continue to work in partnership with other State Government agencies, local governments, chambers of commerce, regional university campuses and individual industries in researching and promoting investment opportunities for their areas.

A whole of government trade and investment strategy will focus on developing the export capacity of Western Australian industry and export promotion. It will seek to increase the number of WA businesses, including regional businesses that export and identify potential new markets for Western Australian exporters. Small and medium sized businesses are significant components of the industry base in regions and an essential part of the Government's approach to promote trade and investment is the development of a strong export culture and sustainable export capabilities for small business. A particular small business focus will be the development of greater export capacity amongst Indigenous enterprises.

The promotion of regional areas as attractive places to live, work, visit or invest in, will be undertaken through all forms of media, regional displays in city locations, and a variety of other ways. Particular emphasis will be placed on briefing and providing information to Western Australian overseas offices to enable them to market regional opportunities. Support will be considered to investigate the feasibility or assist the actual relocation of individual Perth industries to regional areas.

The Internet is a major promotional tool for Government. Comprehensive, up to date information on regional Western Australia will be showcased on Government agency websites.

Business migrants bring significant capital and expertise to this State. However, the majority of migrants settle and invest in the metropolitan area. A coordinated regional approach will be developed to make potential business migrants fully aware of the investment and lifestyle attractions of regional areas, and to assist in providing support once migrants make the move. Our prosperity depends on our capacity to compete in the global market so the government will continue to encourage new approaches to promoting regional areas to Perth residents and interstate and overseas interests. More creative and innovative approaches are made possible through diversity.

Implementation

7.1 Responsibility for achieving Outcome

Department of Industry and Resources, Department of Agriculture, Department of Fisheries, Regional Development Commissions, Small Business Development Corporation, Western Australian Tourism Commission, Department of Local Government and Regional Development. Other agencies as appropriate.

7.2 Policy Progress

The yearly report on progress towards achieving the *Enhanced Regional Investment Outcome* will cover at least the following:

- Analysis of regional investment activity including, as appropriate, economic growth rates/activity, Regional Investment Fund expenditure, new private sector investment, investment inquiries, marketing and promotion initiatives, outcomes from regional investment tours, export readiness initiatives.
- Analysis of new business migrants to the State, including percentage settling in regional areas (as opposed to metropolitan area), types of business created/purchased, jobs created (latest figures).
- Investment projects for each region (latest figures):
 - Under consideration
 - Number committed
 - Under construction
 - Jobs created
- Regional employment analysis covering trends in participation rates, employment and unemployment numbers. As data becomes available trends for Indigenous and youth participation will also be covered.

Outcome 8: Fair Pricing for Regional Residents and Businesses

Outcome Priorities

- Fair pricing structures for goods and services in regional Western Australia.
- Greater percentage of government purchases made through local regional businesses.
- Maintain uniform tariff and pricing policies for delivery of power and water to regional residents and small businesses.
- Improvement of Commonwealth taxation system to the benefit of regional Western Australia.

Strategies

- Press the Commonwealth Government for the reform of zone tax allowances.
- Continue to implement and monitor the revised Buy Local Policy.
- Strengthen regional content in construction and operation phases of infrastructure and large projects located in regional Western Australia.
- Monitor and take action as appropriate on key pricing issues, such as fuel, in regional areas.
- Ensure that recommendations made by the Economic Regulation Authority fully consider the needs of regional residents and businesses.

Residents and businesses in regional Western Australia face challenges that do not have to be met by their metropolitan counterparts. Some of these challenges arise from the trade-oriented nature of regional economies and the high reliance on commodity exports. Other challenges relate to higher prices and costs of service delivery of public and essential services in the regions.

The Government recognises that economic, social and environmental development of regional communities is dependent on equitable access to quality services and infrastructure. Pricing is one of the most important determinants of access to goods and services. Hence, fair pricing is a prerequisite for the equitable access to high quality services such as electricity, water, health and education.

The Government has firmly committed to the principle of uniform energy tariffs and water prices to ensure that the cost and availability of energy and water enhances regional Western Australia's economic competitiveness. The Government will establish the Economic Regulation Authority. The Authority will determine access prices and terms of access for major economic infrastructure; make recommendations to Government about tariffs and charges for essential services; enforce laws and regulations on prices and service standards; and issue and enforce industrial licences to supply certain goods and services.

Initiatives aimed at delivering fairer regional fuel prices will be progressed. "FuelWatch" has now been extended to include 25 extra town sites and five local government areas. Providing information about fuel prices allows motorists to be more informed about where to buy fuel. A 'terminal gate price' at regional and metropolitan fuel terminals to increase transparency in petrol pricing and encourage a more competitive spot market for wholesalers has been introduced. The State recognises the difficulties of acting alone on this issue. The Commonwealth Government will be pressed to introduce a code of conduct for the fuel industry on a national basis that will assist protection of motorists and independent fuel retailers.

The Government will foster competition across road, rail and sea transport sectors to minimise the impact of freight charges on small businesses in regional areas. The State Government will also continue to make representations to the Commonwealth Government on behalf of the people living and working in regional areas who are currently disadvantaged by the Federal Income Tax system. As it stands, decisions by households and businesses are distorted by a tax system that discriminates against those living and working in regional and remote areas.