CONSERVATION COUNCIL
OF WESTERN AUSTRALIA INC.

3 May 2005

Inquiry on Urban Water and Wastewater Pricing
The Chairman
Economic Regulation Authority
Level 6, Governor Stirling Tower
197 St Georges Terrace
PERTH WA 6000

Dear Mr Rowe

SUBMISSION ON THE INQUIRY ON URBAN WATER AND WASTEWATER PRICING (DRAFT REPORT, 18 MARCH 2005)

The Conservation Council of WA Inc. (CCWA) commends the Economic Regulation Authority (the Authority) for the public consultation process on these matters, including for the issues paper prior to this draft report, and welcomes the opportunity to comment on the draft report.

The policy objectives in relation to the use of appropriate pricing to address issues of environmental externalities, scarcity value, managing demand, regulatory mechanisms and social objectives and revenue requirements are agreed with in terms of the objectives that need to be considered. In general terms however, it is our view that the draft report has an inadequate emphasis on environmental externalities, particularly the stated aim in this objective of "to avoid future environmental costs." Coupled with this, there appears to be insufficient use of demand management and regulatory mechanisms to achieve environmentally sustainable water use over the long term. This is explicitly stated on page 4 of the draft report, i.e. "the most appropriate form of price regulation for the Government to apply to the Western Australian water industry is one that is light-handed, providing certainty to service providers over a three-to-five year period."

Following are specific comments on various aspects of the draft report.

Sustainability principles need to underpin urban water supply and its pricing

May we suggest that it is vital that price setting for of urban water supply and the provision of wastewater services, is wholly based on sustainability principles. This needs to include both protecting, and assigning a proper value to services that are provided, by the natural environment. To date Western Australia's urban water supply has come at a cost to the environment, with no reflection of this in the cost of water delivered. Victoria and the Australian Capital Territory have set precedents in that the environmental costs of water supply are reflected in charges to providers and consumers. Additionally, in some other states of Australia high volume water users (including but not limited to heavy industry, mining, irrigators and local governments) pay significant licence fees. Arrangements of this type provide strong incentives to industries and other activities requiring high volumes of water, to increase their efficiency and reduce water use levels.

Currently Water Corporation expenditure is heavily weighted towards water supply including new source development, rather than water conservation and recycling.

Although very helpful for demand management, the water restrictions currently in place in Perth probably have the most value in terms of community education and awareness. For many, this represents the first step in treating as a priority, and acting on water conservation. The widespread acceptance, and in many cases enthusiasm for water restrictions indicates the community's acceptance of water conservation. This acceptance needs to be capitalised on, in particular facilitating the adoption of water conservation measures, many of which are based on simple principles . For example, education and incentives need to be provided for landholders to set up 'water wise gardens', particularly using world renowned local native flora.

CCWA strongly suggests that sustainability principles, in environmental, social and economic terms, need to underpin decision making on water pricing. This needs to be done in a transparent manner, and with full community involvement. Some of these principles are:

- Pricing to include the true costs of environmental impacts of water extraction and use, reflecting the scarcity of the resource and the energy required to supply water.
- Fair and just prices for all sections of society.
- Educating all sections of society on the ongoing importance of water conservation and sustainable use, given its scarcity.
- Facilitating water conservation measures by the promotion of affordable user-friendly systems and approaches, and providing incentives to conserve water.
- Providing incentives for, and ensuring that systems and approaches for use of greywater are affordable.
- Redressing impacts and damage to the natural environment already caused by water supply needs – such as reduced flows in rivers due to damming, and loss of native vegetation and ecological impacts resulting from clearing for infrastructure.
- Planning for and designing new sources of water supply and expansion of wastewater services so that their operations have a minimal 'ecological footprint'. Any damage that does occur, both during construction and service operation, needs to be minimised by careful planning; and be repaired and managed following best-practice environmental management principles.
- Planning for and designing water supply and wastewater services to be highly energy efficient, including minimising the use of electricity. Over time, higher levels of renewable energy need to be used as part of the State and nation's reduction in greenhouse gas emissions.
- Government and water utility budgets need to reflect the importance of water conservation and recycling, rather than the present regime strongly geared towards new source development.

The implications of climate change in the Western Australia's South-West for water supply and its pricing

Given the current situation of increasingly scarce water availability due to climate change in the south-west of Australia, it is critical that water supply is environmentally sustainable from now on. Pricing is a key mechanism to achieve this sustainability, and given the precarious nature of Perth's water supply it is only logical that the cost of water in Perth should be higher than elsewhere in Australia.

The importance of finding synergies across sectors in water use and supply, *i.e. for the urban and rural sectors*

The draft report indicates that rural water pricing will be examined in a future Inquiry. CCWA considers that dealing with rural and urban water separately does not promote sustainable water use in the South-West of the State. As long as this approach is followed there will be shortfalls in achievement of the desired outcome of sustainable water supply throughout the South-West, and it is suggested the satisfactory achievement of many of the stated objectives of this report.

The draft report (as per pages 2 to 4) appears to support this contention. In particular, it is stated that 40% of the South-West's water is used for irrigation, and that increased efficiencies in rural water use and a water trading regime between sectors will potentially boost sources for urban water supply. We also note with interest that Busselton Water and AQWEST currently utilise 10GL out of their 26GL annual licence allocations for groundwater extraction, and there may be an opportunity for these regional suppliers to sell or lease part of their unused allocations to the Water Corporation. It is indicated that the main obstacle to this occurring is the lack of a water market and associated problems with long-run marginal cost (LRMC) adjustment.

CCWA recommends that this opportunity is pursued as a matter of urgency, facilitated by the Government undertaking the structural reform needed to create an effective water market and appropriate LMRC adjustment. Any gains in Water Corporation's water supply in this manner, would then ideally result in a corresponding reduction in their proposed 45GL per year extraction from the South-West Yarragadee Aquifer.

Assessment of potential new sources of water supply

CCWA is concerned that Water Corporation's extraction of 45GL per year from the South-West Yarragadee Aquifer, in addition to existing licence allocations from this aquifer, may be environmentally unsustainable.

All new sources (or increased levels of extraction) for water supply need to be considered on the basis of the Precautionary Principle, which means that if there is any doubt as to potential environmental impacts the proposed development does not proceed. This includes the possible impacts of construction, operations and ongoing maintenance.

Some of the critical matters in this regard are that new sources of water supply do not impact on the following – including associated flora, fauna, ecological communities and natural systems:

- The overall viability, hydrological and ecological processes linked with groundwater systems and their flows.
- Wetlands (as per the definition under the Ramsar Convention, of which Australia is a signatory).
- Rivers and other waterways.
- Water flows across the landscape crucial for the maintenance and wellbeing of all aspects and processes relating to the natural environment.
- Ensuring rare, threatened or endangered species/ecological communities do not undergo further decline.
- Areas of remnant native vegetation, such as bushland.
- Native fauna species and communities.
- Other matters covered by the federal Environment Protection and Biodiversity Conservation Act and the International Union for the Conservation of Nature (IUCN), of which Australia has member nation status.
- Adopting water conservation and recycling alternatives in preference to new water source establishment, or increasing levels of extraction from existing sources.

In summary, rigorous environmental assessment, completed over a realistic timeframe, is required to establish whether proposed new sources and increased levels of extraction of water supply are viable. If this assessment indicates that the proposed development will harm the environment it would be unacceptable, including for economic reasons, for the development to proceed.

Wastewater

While the draft report, and indeed this submission primarily focuses on issues relating to the pricing of water supply, nonetheless it is considered important for all of the services delivered by the service providers to be considered in this report.

CCWA does not consider it acceptable that wastewater is discharged into the ocean. Additionally, given the increasing scarcity of sources for water supply in the South-West of the State it is critical that wastewater is treated to the point where it can be recycled and reused. It is noted that there are many places in the world where this is done, some having much more abundant water sources than is the case in the South-West of Western Australia. The cost of dealing with wastewater is currently internalised by the Water Corporation and it is judged that these costs need to be borne externally in order to provide appropriate wastewater treatment and recycling services.

It is our view that greater funding should be devoted to finding and repairing wastewater system leaks, replacing inefficient components of the wastewater infrastructure and taking all possible measures to prevent failures in the system resulting in sewerage discharges to the environment. This is particularly important as part of the whole of government and community approach required for the protection of the Swan and Canning Rivers and Estuaries. We are aware that the Water Corporation is undertaking comprehensive planning in this regard, and strongly support this being implemented in order to attain the highest possible level of environmental protection.

Pricing structures and billing approaches to encourage sustainable water use

Water bills need to be designed in such a way that they present clear and important information to consumers on usage, as well as give incentives to convert to monthly billing. Additionally, it is suggested that a free auditing service and water saving action plans are set up for high volume users. For example, the Victorian rising quarterly block consumption levels serve to reward efficient users, and provide a disincentive to excessive water use.

More frequent bills, using effective graphic design and layout for ease of understanding would be an invaluable tool to reduce water consumption. This would highlight a more direct relationship between water usage and cost, and provide scope to facilitate seasonal factors to be introduced to the pricing framework.

The present Perth metropolitan tariffs are unacceptably low. We are advised that the price of water consumed between 550-950 kilolitres is only $1.20 per kilolitre, and that for water consumed above 950kl the price increases to $1.50 per kilolitre. It is noted that for most consumers Perth's water is cheap when compared with water in other Australian cities. Given the precarious nature of Perth's water supply, clearly it is appropriate for comparatively higher charges to be levied for this supply.

It is important to protect economically disadvantaged residential consumers, and as such we would suggest the provision of water savings packages to provide mutually beneficial alternatives in these cases. Possible packages may include capping water charges, and assistance to install water saving products such as low flow (AAA rated) shower heads and low-volume flush toilets.

Whilst there are some advantages in using a stepped tariff scale, the present low-charge threshold of 150kL is too high to provide meaningful assistance with demand management. We strongly suggest, that except in cases of genuine hardship for residential customers as above, the tariff system should be exponential, rather than a stepped linear approach. This would be an invaluable pricing mechanism in the delivery of water conservation outcomes. Revenue earnt from high volume water use could then be directly allocated to budgets for water conservation and recycling, including subsidies for the adoption of water efficient home appliances.

Please do not hesitate to contact us should you require any further information, or seek clarification, on any of the points made in this submission.

Yours faithfully

Chris Tallentire
DIRECTOR