

TO : **Inquiry on Urban Water and Wastewater Pricing**
Economic Regulation Authority
Level 6
Governor Stirling Tower
197 St Georges Terrace
PERTH WA 6000

SUBMISSION BY :
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BACKGROUND

The Busselton Water Board, established in 1906 under the provisions of the Water Board's Act 1904 is the provider of potable water to the community of Busselton on a 24 hours per day, seven days per week basis, and is totally funded by the community who receive the service.

The Board is not a provider of wastewater services.

Water Tariff and other charges imposed by the Busselton Water Board are the sole avenues of funding, and no subsidies are payable to the Board, as distinct from the Water Corporation who receive Community Service Obligation (CSO) payments. The Board pays Taxation Equivalent Regime (TER) payments to the Government.

Through the establishment of Reserve Funds in the past years, for major infrastructure provision, the Board is now debt-free. This has been a major achievement of more recent years, given the tremendous growth that Busselton has experienced and is continuing. The infrastructure provided is all modern and very well maintained.

Since the Board's "roots": originate from Local Government, historically, the method of raising water tariff revenue has followed the time-honoured system used by Local Government, where annually, the perceived and known expenditures are calculated, and from that figure the anticipated revenue from all other sources is deducted, leaving a balance to be made up from setting water tariff charges. Budgets are adopted for a 12-month period and approved by the appropriate Minister (Minister for the Environment). Provision for a relatively small credit balance which is calculated into the equation has of recent years been approved by the Minister, to ensure that the Board has sufficient cash-flow funding available to cover the July/August period (the beginning of the new financial year) until:

- The new budget is approved
- Income can be derived from water assessment accounts following the June/July meter-reading period.

Central to any review of the role the Busselton Water Board provides to its customer base in the provision of services is an urgent need for review of the legislation, which governs our operations. The current Act was formulated in 1904 and has been subject to very few amendments to update it over the years. Successive Governments have been constantly approached by the Board, and that of Aqwest (Bunbury) for legislative change to enable the operations to be more centred on grasping business opportunities, expanding our services to invest in future water markets etc, but to date, it has been to no avail. The Board respectfully suggests that the enquiry should be another avenue to progress change, which will create a level playing field being available to all participants in the water industry in Western Australia.

Furthermore, whilst our water pricing principles have always been subject to approval by the Minister responsible, and therefore the public interest has been maintained, the Board believes that the outcome of this pricing enquiry could possibly result in Government setting prices, which may not be in the best interests of the local customers. This then begs the question of accountability and who will advise the public of increases in water tariff, and conclusively, what role the Water Board/s will play in the future?

The Board of Busselton Water is grateful for the opportunity to comment on issues raised in the inquiry on Urban Water and Wastewater Pricing.

D G McCutcheon
CHIEF EXECUTIVE OFFICER

3.3 Water Supply and Demand Situation

The demand projections within the report relate only to the Water Corporation, and therefore the Board makes no comment.

Level of Security

The Board is of the view that the sprinkler bans, which currently remain in force at Busselton (i.e. Sprinklers not to be used between the hours of 9.00am and 6.00pm daily) is acceptable to the local population. As there is an adequate supply of water for our purposes, contained within the Leederville and Yarragadee Aquifers, further restrictions are unnecessary. If further restrictions, such as the banning of the use of sprinklers or limiting sprinkler use to a certain number of days per week would have a detrimental affect on the revenue capacity of the Board, who do not experience the same problems as the metropolitan area in resourcing sufficient water to meet our requirements.

Most Efficient Future Water Source Option

The Yarragadee Aquifer remains the best and most efficient option for the Board to resource its water, however where problems do exist in the state of Western Australia, such as the Perth Metropolitan Area, the Board are of the view that a combination of desalinization treatment and access to the Yarragadee Aquifer – providing all environmental criteria are met, and sufficient reservation of resources to meet all local requirements are attainable. A considerable amount of research etc. needs to be completed before these assurances can be met and decisions made. In the longer term, the damming and transport of water from the North of the state could be further investigated.

▪ 4.1 Water Pricing

Whilst water pricing helps to achieve efficiency in the use of water, the Board believes that the Government should introduce the measures which were put forward at the 2002 Water Symposium regarding water capture and re-use in new sub-divisions, and the implementation of standard requirements for water wise household equipment in all new buildings.

Other factors, which require Government leadership, include:

- Public education and awareness
- Improve and control land use and development
- Making more funding available for effective research into water resources and opportunities
- More use of Native vegetation in town beautification programs

5.1 Water Pricing to Provide Incentives to Achieve Efficiency Gains

Whereas in the commercial environment where volume of sales is the standard measure of efficiency, the water industry must balance its efficiencies between supply and demand. Historically, prices have been set to "balance a budget" based on a 12-month operating term, with due consideration to maintaining reserves for future infrastructure requirements and to maintaining service standards required by Licence requirements.

Any efficiency gains recognized "along the way" are grasped reflecting more on our "community owned" status and the need of the Board to be frugal at all times as our performance is very much in the public domain.

5.2 Price Setting Ahead of Time

It is the opinion of the Board that prices would best be set at two year regulatory periods, but then, if this is achieved, the Water Boards Act 1904 should be amended immediately to allow Water Boards to prepare budgets on a two-year cycle. The principles adopted by the Board, following the local government system, for assessing water tariff that have served the Boards very well could then continue on a two-year regulatory scale.

5.3 Sharing of unexpected revenue or expenditure variations shared between customers

Any unexpected revenue variations, under the Boards system of setting tariff charges automatically reflect in the budgeting process in the following year and could have the effect of holding charges even below CPI adjustment amounts. Similarly, expenditure variations can be adjusted in the following year's budget process through increasing tariff charges.

The Board believes that adjusting charges during the regulatory period is not seen as a good idea, when so much emphasis is rightly placed on "customer Satisfaction."

5.4 Pricing Policy Providing Improved Service Standards

The Board is obligated to provide a service in accordance with licence requirements, which dictate Service Standards, and water pricing should provide the financial resources to achieve this aim. In the event of prices declining it is assumed that services would likewise decline.

5.5 Differences Between Price Setting Approaches

Definitely so! Legislation applicable to the Board differs from that which applies to the Water Corporation and therefore it follows that approaches would be different. Approaches used by both Water Boards have proved highly successful when linked to the important issues such as customer satisfaction, debt etc. Our methods of resourcing and providing water (extraction, storage, treatment) all differ vastly from the methods of the Water Corporation.

6.1.1 Regulatory Asset Base Estimation

Due to the small size of the Board's operations the Board agrees with National Competition Council's acceptance of the application of AASB 1041 accounting standard is sufficient.

6.1.2 Rolling Over of Regulatory Asset Base

The Board believes that the best method of rolling over the Regulatory Asset Base is by adding capital expenditure and then taking into account disposal, depreciation and redundancy of assets. The Board currently uses straight-line depreciation over the estimated useful life of the specific asset, and this method is considered acceptable.

6.1.3 Various

As the Busselton Water Board is a small community funded operation, and has achieved an excellent level of customer satisfaction, we do not employ economists or economic consultants to delve into issues such as risk-free rates and market risk premiums.

The Board is satisfied with current progress, but if the indicators that result from this inquiry dictate that our customers would be better served by doing things differently, we would react accordingly.

6.1.4 Ongoing Viability of Water Service Providers

The Board are of the view that sufficient auditing of the Water Service Providers is currently maintained to ensure the ongoing viability of those organisations and if it was ever discovered to the contrary, sufficient legislative power is available to implement change. Simple procedures are maintained by the Water Boards in Western Australia and both are viable, debt free, and have adequate reserves to maintain the standards that have already been established.

6.1.5 Payment of Dividends to Government

Busselton Water Board refrains from commenting as to whether the level of the Water Corporations dividend payment ratio and gleaning rates are appropriate.

The question as to whether the Busselton Water Board and Aqwest should be required to pay dividends to government is one, which has been addressed on a number of occasions. During 1999 at a meeting held between the two Water Boards, the then Minister for Water Resources Dr. Kim Hames and the then Under Treasurer, Mr. John Langoulant, it was resolved in favour of the arguments put by the Board, that since Government has never made any financial commitment to the Boards, and that all of their assets and infrastructure have been funded by the respective communities which they serve, the payment of dividends by Aqwest and the Busselton Water Board was totally inappropriate with regard to their current operations. The Board believes it is already delivering a "dividend" to its customers through its schedule of charges and services provided.

6.2.1.2 Water Service Standards

The Board believes that the Standards of Service contained in the Operating License are both appropriate and adequate. We have evidence that between 96% and 98% of customers believe that the Standards of Service they receive currently are sufficient and therefore it must be assumed that customers generally, would not favourable towards paying extra charges for any modification of the Standards of Service.

6.2.1.3 Management of Water Resources in Environmentally Sensitive Areas

The Board believes that the issues already identified in relation to the management of water resources in environmentally sensitive areas are adequate, notwithstanding that should a future government decide upon extracting groundwater from the Yarragadee Aquifer for transportation to service metropolitan and/or other State needs, sufficient legislation must be put in place to ensure that local and environment demands are first catered for in the longer term.

6.2.1.4 Licenses Issued by the Department of the Environmental Protection

The Board believes that the standards incorporated into licenses issued by the Chief Executive Officer of the Department of Environmental Protection are adequate.

6.3.1 Efficiency of Water Service Providers

The fact that we are perceived, by the communities that we serve, as being "Community Owned" is also a major factor of our governance to maintain efficiency in the provision of our services. Any further opportunities for efficiency gains that are identified are implemented forthwith, or at the latest, during the water tariff setting processes of the following year.

6.3.2 Capital Expenditure Program

The Boards Capital Expenditure Program is assessed annually and by the frugal use of revenue and established reserves the Board has been able to maintain a high standard of value of its assets. The Board pays due attention to its 10-year Development Plan in assessing its annual expenditure priorities. 96.97% of surveyed customers, who believe that by knowledge and observation, that they understood sufficiently well to make a judgment, were of the opinion that the Board is maintaining its infrastructure to an acceptable standard.

The 10-year Development Plan is a flexible guide, which is constantly being reviewed, given the variable growth (currently extremely high) of the Busselton town site and adjoining areas, which are serviced by the Board.

6.4 Revenue Recommendations

The Board are of the view that when Water Service Providers such as ourselves who are fortunate to have an abundant water resource on which to draw, are forced to adopt measures statewide, that any loss of revenue directly resulting from those introduced measures are compensated through C.S.O. payments.

7.1.1 Water Pricing to reduce Demand when water is in Short Supply

The Board believes that water pricing would play a role in reducing demand when water is in short supply but suggest that other means such as extensive public relations efforts, education and the prohibition of sprinkler use during specific periods would be more effective and acceptable. Similarly, recycling of grey water should also be implemented by Government.

7.1.2 Water Usage Charge

The Board sees merit in having the Water Usage Charge make up a greater amount of the total water bill as it would aid water conservation, but at the end of the day customers desire to have a right to know what their payment are attributable to. The range of comparison between Water Service Providers in Western Australia varies between 47% (Water Corporation – Perth) and 58% (Aqwest) according to growth, which also indicates that Busselton Water's 51% is close to average and should be acceptable.

7.1.3 Program Tariff Scale

The Board suggests there should be a reduction in the number of steps. The Water Corporation and Busselton Water currently use 8 steps, which are as follows:

First 150
 Next 200
 Next 200
 Next 200
 Next 400
 Next 400
 Next 400
 Thereafter

Aqwest have 6 tariff steps

Busselton Water Board believe that five (5) steps would be adequate

First 150	@ \$ 0.40c per litre
Next 300	@ \$ 0.60c per litre
Next 300	@ \$ 0.80c per litre
Next 400	@ \$ 1.50 per litre
Thereafter	@ \$ 2.00 per litre

At present low consumers pay less than the economic cost of the water they consume. They are subsidized by the higher consumers. We agree with that but we also agree that consumers in the mid ranges should be encouraged to use less water.

The common use of automatic reticulation systems in Busselton account for a very high number of properties, using up to 1,000 kilolitres per year. We believe water providers should charge more for the middle consumption step.

The Board, in its current water tariff charging structure reflects that the cost of developing future water extraction bores and the infrastructure to treat and store water is being somewhat met from the usage charges given that a proportion of revenue annually is directed towards the continuing establishment of Reserve Funds – which are then dedicated for the use of providing new infrastructure.

7.1.4 Seasonal Charging of Water Prices

The Board does not agree that water prices should be charged on a seasonal basis. The current water tariff arrangement, modified to provide for a 5-step system, would be adequate and acceptable to the community.

7.2.1 Low Rate for First 150KL

The Board is of the view that the low rate for the initial 150kl of water usage is effective and should be retained. It is seen and accepted as a "reward discount" to low water usage households.

7.2.2 Wastewater Services

Not being involved with wastewater services, the Board makes no comment on these issues.

7.2.3 Cross-Subsidisation

Cross Subsidisation is not an issue of interest to the Busselton Water Board.

7.3 Other Matters for the Authority's Consideration

The Authority should take cognizance of the fact that if the structures that have been implemented by Water Service Providers have been unsuccessful, and have ensured financial viability and the elimination of debt, and have produced a prove record of establishing and maintaining adequate resources which can be drawn upon for future infrastructure needs – then perhaps we do have it right at the present time and the age-old analysis "if it ain't broke, don't fix it" should be retained.

8.0 No Further Comment is necessary