

Inquiry on Urban Water and Wastewater Pricing
Economic Regulation Authority

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SUBMISSION TO THE INQUIRY

I welcome the opportunity to contribute to your inquiry and I offer my comments and suggestions below.

1. Water – public good or commodity?

As an introduction to my submission I would like to suggest an alternative question to that posed in section 3.1 of the Issues Paper, namely, what is the basis of current water price settings?

Currently water is treated as a commodity. It is collected and sold to the public through commercial transactions by a government trading enterprise. The first function of the Water Corporation as outlined in Section 27 of the *Water Corporation Act 1995* is “to acquire, store, treat, distribute, market and otherwise supply water for any purpose”. This is the language of commodity acquisition and sale and raises a not unreasonable expectation that if a customer is prepared to pay, the Water Corporation should be expected to develop a supply (subject to availability as regulated by the Department of Environment), and sell the water. That is, water supply has been set up institutionally and treated as a commodity.

In contrast to the expectations created by the structures currently set in place by government, there is a clear focus in the inquiry on demand management, water restrictions and other issues associated with the current water availability problems in Perth. This is the language of State ownership and control in an environment of relatively fixed resources. In this context, water is being treated as a public good.

The reality is that government is currently enjoying a bet each way. It is content to limit Water Corporation borrowings such that new water sources cannot be developed quickly enough to keep up with the expanding demand in a growing state. Government also interferes in the setting of prices, keeping them low for political reasons, but continues to require a substantial annual dividend from the Water Corporation. It now seeks to impose water use restrictions on the Corporation’s customers for wanting to use a product they have been led to believe is their right.

It must also be acknowledged that a large part of current water use patterns in WA are designed into our society and reflect expectations, habits and unavoidable uses built up over several generations. People have showers to keep clean, they wash clothes and dishes, and they flush toilets after use – these are basic public health measures that are a feature of our western society and which arguably are a significant source of our overall wealth. People also have gardens that need watering, and these provide great enjoyment and contribute to our overall sense of place and well-being.

Beyond these social factors, there are a wide range of technical and regulatory factors that work against reducing water use, or fail to encourage better behaviour. Existing Health regulations and plumbing standards often prevent or actively discourage the use of water

saving devices and techniques (e.g. reuse of grey water), or fail to provide any preference for low water-use devices (e.g. differential prices for low water use shower heads or dishwashers). Sub-divisions continue to be built with large areas of lawned road verges with automatic sprinkler systems that operate all year-round.

It is clear that water can be used more efficiently and effectively. For many people, change may take time to implement and needs to be balanced against the impact on the quality of life that we now enjoy. In other areas, government needs to take a far more active role in adjusting the structural, policy and regulatory settings needed to design in better water use into the future.

However, in the absence of a State population policy or implementation of planning measures to restrict growth in the greater Perth region, it is inevitable that more water sources will need to be found.

Until the conflict between the existing institutional structures and drivers on the one hand, and the need to change on the other is resolved, it will be difficult to gain general community acceptance of the need to change water use habits.

The inquiry should consider whether the Water Corporation should be reintegrated into government as a Department so that it can be more closely directed to meet government environmental management objectives, or as a minimum, whether its charter should be amended to explicitly fit with the change in government policy direction.

2. Ecological sustainability

I would also like to ask on what basis it is appropriate that the ERA should address the inquiry term of reference relating to ecological sustainable development (ESD). While it is clear that the Government of WA espouses ESD as a basis for development of the State into the future as a general policy, it has yet to include specific reference to the concept in the legislation relevant to the ERA. Section 26 of the *Economic Regulation Authority Act 2003* (note: this Act was passed after Government specifically embraced the sustainable development concept) is almost entirely concentrated on issues of economic efficiency and makes no mention of ESD. Similarly, Section 27 of the *Water Corporation Act 1995* focuses on the provision of water services for profit, and makes no reference to environmental requirements other than adherence to environmental laws.

If the inquiry is to consider ESD, then it should recommend that ESD principles, considerations and requirements be written into the Acts for the ERA and the Water Corporation.

3. The “real” cost of water

The inquiry has raised the issue of whether water prices adequately take into account the environmental impacts of water usage. As a member of the Australian Water Association for over 20 years, I am aware that this has been a common call for some decades from what I would call the water elite.

Too often, it is claimed that water is “too cheap” because an alternative to using a given water supply costs more, and consequently is not developed. This is often a false argument, the alternative is more often simply too expensive. If it can be demonstrated that the price of the

“too cheap” water supply is indeed artificially low because a key external factor is missing in the cost structure, or there is an unjustified subsidy, then it is proper that this be redressed.

In the case of environmental costs, if the price of a water supply is to be increased it is critical that the factors contributing to the cost are identified in a transparent manner and that the additional revenue generated by increased pricing is directed to dealing with that environmental impact and not simply redirected to other political priorities.

This debate raises another issue that is addressed tangentially in the inquiry, namely the morality of water use. The suggestion that water should be charged at a higher rate in summer suggests that using water in a time of low supply is somehow unjustified and immoral. This argument actually makes no sense when our system is specifically designed to store water when it is raining for use when it is not.

My argument earlier pointed out that it is entirely reasonable for people to use the water they have paid for, and to do so when it is needed – i.e. to water gardens when it is not raining. If government wishes to deny people gardens and tell them when they can and cannot use water, then let there be a democratic vote on the issue, not ideological and authoritarian state control by stealth. I would contend that the idea of charging more for water in summer is insulting and irrelevant. It could equally be argued that water should be more costly in winter because there is no need to water gardens when it is raining. To that end I would advocate a complete sprinkler ban in winter as a painless way of reducing water use.

4. The cost of sewage services

The fairest basis for sewerage charges would be the measured flow from a property, that is, user-pays. Unfortunately the cost of metering sewers could not be justified. It would be interesting to determine whether water use could be used as a reliable surrogate indicator of sewer use. Other conceivable systems such as the current one, or a system based on property values cannot be justified in any way that would be consistent with competition policy.

In closing I strongly suggest that your inquiry should make every effort to identify and enunciate the views of ordinary people to ensure that the inquiry recommendations truly reflect a community consensus view as opposed to a highly skewed and unrepresentative position that will be advanced by green, academic, and other special interest groups.

Yours sincerely

Philip Hine

August 2004