



**Inquiry into Urban Water and Wastewater Pricing
Public Forum 19 May 2005**

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Pricing Inquiry

Water Corporation fully supports the objectives of the Inquiry.

Level of Charges

- Prices for water services can be contentious. We expect an independent review will give the community assurance that they are not being overcharged.

Tariff Structure

- There has been significant tariff reform in recent years. A public review allows broader participation in this ongoing process.

Water Corporation's Inquiry Objectives

- Support for our proposed price path
- Any recommended changes to our tariff structures
 - are revenue neutral
 - can be implemented, including transition issues
 - deliver net benefits to the community, including transition issues
- Endorsement of our capital program
 - We are delivering services required by the community, regulators and the Government
 - The program has been properly planned and prioritised and will be delivered efficiently.
- Endorsement of our operating budget

Perth Seawater Desalination Plant

- Supply and demand are currently out of balance. There is
 - an unacceptable probability of total sprinkler bans
 - 2 day a week sprinkler restrictions
- The desalination plant is the only option available to be delivered within the required timeframe.
- Both desalination and the South West Yarragadee are needed by 2009/10
- The early commitment to the desalination plant will reduce the probability of total sprinkler bans significantly and the value to the community of avoiding sprinkler bans is substantial
- The Government has made the decision to construct the desalination plant on the basis that the benefits of increased security of supply outweigh the additional cost
- The Corporation needs to be able to recover the cost of providing the higher level of security

Capital Program

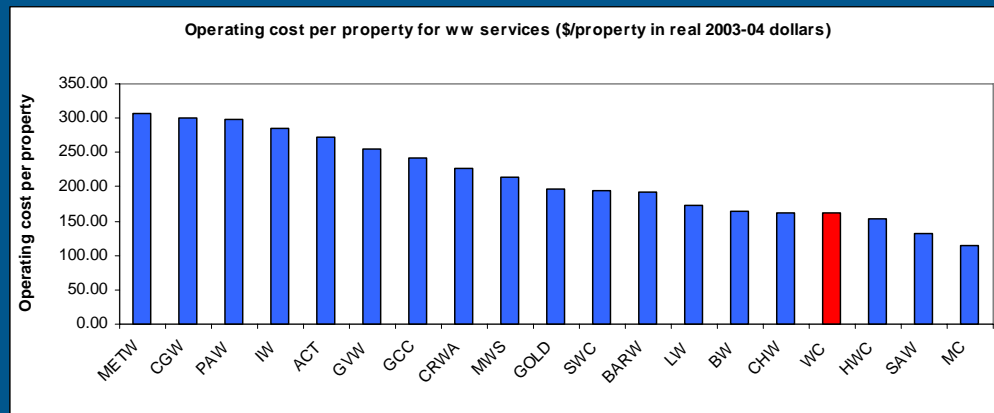
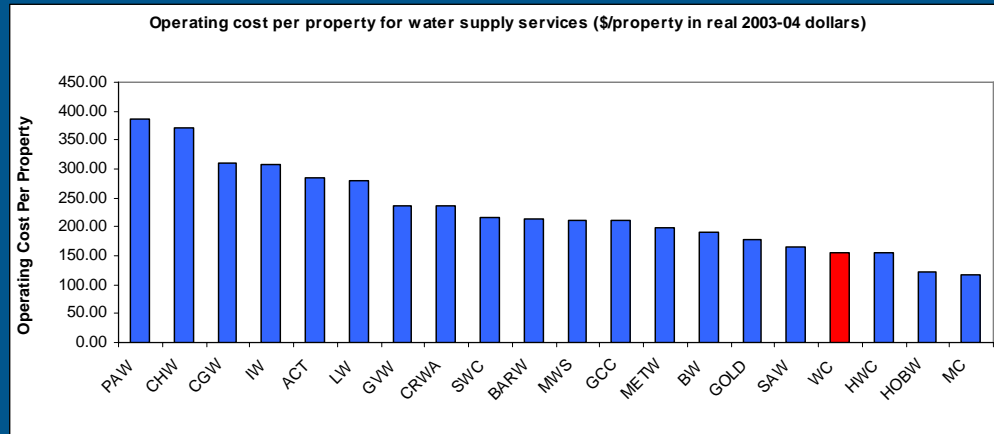
A price reduction based on potential lower capital expenditure cannot be justified.

The Corporation will spend the full capital budget.

- The capital program has been framed within a budget constraint. Changes to the capital budget impact service levels, not profits.
- The program is under cost pressure from escalating construction, steel and oil costs. 10% underestimate identified in the Draft Report may be conservative.
- The program already includes a challenging internal efficiency objective of 8%. The proposed additional 10% would be unachievable.
- Private sector participation is already substantial and is part of the strategy to meet our internal target. Major examples of innovative solutions include
 - Harvey Stirling pipeline
 - Woodman point Wastewater treatment plant upgrade
 - Perth Seawater Desalination Plant

Operating Efficiency

The efficiency improvement target builds on our comparatively low operating costs per property.



Operating Efficiency

The Corporation has a history of setting challenging internal efficiency targets

- We are seeking efficiency improvements not simple cost cutting
- Major change is under way to maintain the rate of improvement
- Proposed target is in line with that expected from private UK companies

The potential for reducing staff numbers in the Draft Report contradicts our efficiency performance and is not supported by the underlying data.

Key Conclusion

The Draft Report identifies a potential for up to a 5% reduction in the Corporation's proposed price path.

None of the underlying reasons for this reduction stand up to closer scrutiny

- The desalination plant is an efficient solution given the value to the community of reducing the probability of sprinkler bans
- Capital expenditure will match the budget and already includes significant efficiency targets
- Our operating costs are already low and improvement targets are challenging and in line with the targets for other utilities

Residential Tariff Structure

The Corporation generally supports the concept of cost reflective pricing as one of a number of objectives

An “ideal” water tariff for signalling the cost of supply may be a volumetric charge based on the Long Run Marginal Cost with a service charge to balance overall revenue requirements

This structure would also apply to a cost reflective sewerage tariff but is not practical.

A fixed sewerage service charge would be

- administratively efficient
- equitable based on customers paying the same price for the same service

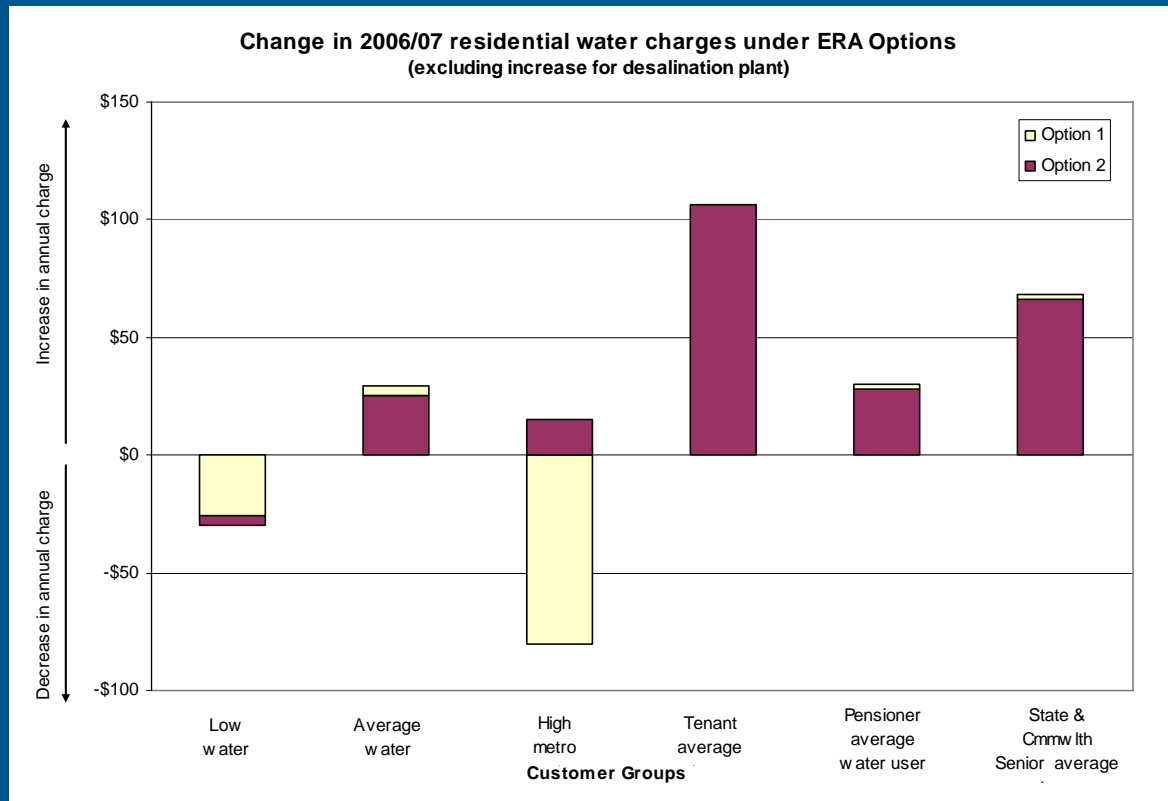
Other objectives have been included in the design of the current tariff structure

- “Water for Life” – providing an affordable essential service
- Discouraging high levels of consumption
- Statewide uniform tariffs
- Sewerage charges based on ability to pay

Water Tariffs Costs and Benefits

Demand management and water reuse

- Provides appropriate incentive to adopt water efficiency and reuse options
- Potential water saving
 - assessed to be very low under current restrictions
 - between 5GL and 10GL per annum under unconstrained demand



Consultation Process

There was an expectation that the Draft Report would contain specific recommendations for

- Price path
- Tariff structures (water, wastewater, residential, non-residential)
- Implementation plans for tariff change
- Charging for the desalination plant

Draft Report flags further investigations to be carried out prior to the Final Report. There is the potential for new issues to arise.

Consideration needs to be given to a process to allow appropriate consultation on any new issue