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**ECONOMIC REGULATION AUTHORITY**

**INQUIRY ON URBAN WATER AND WASTEWATER PRICING**

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**Corporation**

**HELD IN PERTH**

**ON THURSDAY, 19 MAY 2005**

CHAIRMAN: Ladies and gentlemen, if I could have your attention please. Good afternoon, ladies and gentlemen. Welcome to this public forum on water and waste water pricing. For those of you who haven't met me, my name is Lyndon Rowe. I'm the chairman of the Economic Regulation Authority. Just before I start, I've turned my phone off. I hope everybody else has done the same.

Just at little bit to put the ERA into context, the Economic Regulation Authority, the ERA, has been in existence now since 1 January last year and in reality it, in effect, has two roles. One is its regulatory role where it regulates monopoly infrastructure in rail, gas, electricity and water, be it access arrangements or licensing or monitoring arrangements, and the ERA also has an inquiry role where under our act the government can refer issues to us for us to undertake a public inquiry process and produce a report for government consideration. In the first role, the regulatory role, we are a decision-maker. In the second role, the inquiry role, we're there to make a recommendation to government. I'll come back to it in a moment, but what government does with that is largely up to government.

The format for today is - in a moment I will just briefly background the inquiry and where we're at and why we have got to where we are today. We will then have a presentation on behalf of the ERA by Greg Watkinson who's the acting director of references and research at the ERA. Greg will probably take about 20 minutes. We have then invited the Water Corporation to do a presentation and I think Lloyd Werner, the manager of pricing and evaluation with the Water Corp, is going to do that for us. I think Lloyd will probably be about 30 minutes, 20 minutes, and then we will throw it open for discussion, questions, presentations, points of view, and probably at that stage what I might do is just ask if there's anybody who actually made a submission to the authority who would like an opportunity to put their point of view and we will provide that, depending on how many there are. We might have to put some limits on the time frame around that, and then throw it open for general discussion and questions.

How did we get to where we are today? In June last year the government gave the authority a reference to inquire into water and waste water pricing in urban areas with a focus on the Water Corp in Perth and on Bunbury and Busselton. In July last year we published an issues paper and invited feedback on that issues paper and I think around 30 parties responded to that. The ERA appointed consultants to help us with this inquiry. In October last year we published a methodology paper which spelt out how we would actually go about assessing this issue. In December the three water providers, Water Corp, Aqwest in Bunbury and Busselton Water Board, all provided their submissions to the authority. Then on 18 March this year, as you will all know, we released

our draft report and again invited feedback on that and we have had something like 24 responses to that draft report.

5 That leads us, I guess, to the public forum today. We're holding three public forums, the one in Perth today and then on Monday we're holding one in Bunbury and then in Busselton in the afternoon. Our objective is to achieve a final report - we're required under our reference - by August this year. At that stage the authority's role in a sense ends. We will present that report to the government. The only requirement the government has under our act is that  
10 that report must be made public. It must be tabled in both Houses of Parliament within 28 days of receiving the report. What the government then does with that report is up to it. The reason it asked for the reference was to assist it in looking at water and waste water prices that will apply from the beginning of 2006-2007 so from 1 July 2006.

15 Before leaving that and introducing Greg there is a point I would like to emphasise. This very much is a public process. The authority is very keen to get public feedback. As I said, we issued and issues paper to encourage that, we have done a draft paper to encourage that and we're now holding the  
20 forums. As you also know, submissions that we receive are public. They're on the Web site, the ERA Web site, so they're there for everybody to see and comment on those as well.

25 Although we put out a draft report, I'm very keen to emphasise that the authority has not finalised its views. What we did in that draft report was give some preliminary findings and lay out some options. What we did not do is make recommendations. We are very much in a stage where we are considering the views that are put to us and taking those into account. You can rest assured we have not made up our mind. Indeed, I suspect there's some  
30 quite vigorous arguments we will have amongst ourselves. So we want your feedback, we need your feedback and therefore I would like to thank you for attending today in order to assist us with that and hopefully the open forum session after the two presentations will provide a lot of those feedback.

35 What I will now do is I will call up Greg and Lloyd to do their respective presentations. I will then invite some people from the Water Corp and some people from the authority and our consultants to come up and sit up on the stage as a bit of a panel and then invite public comment and questions. So, Greg, who is the acting director, references and research, would you like to  
40 come and do the presentation? Thanks, Greg.

MR WATKINSON: We tend to get locked out of our work stations every two minutes at the ERA. Thanks everyone for coming along today. This is a very interesting inquiry that we're undertaking. It spreads the whole gamut of  
45 issues ranging from social, environmental and land economic issues and so it's

challenging to actually come up with some well-considered advice for government. I would like to thank everyone who put submissions into the inquiry in particular. People have put a lot of hard work into those and they have been very valuable in forming our analysis. I would particularly like to thank the Water Corporation and particularly Lloyd Werner for providing exceptional support in terms of the provision of information to the Economic Regulation Authority.

The presentation today is going to be largely on the issue of pricing structures. The issue of average prices is a more technical issue that perhaps we can pick up during question time. I would like to start by looking at just some of the challenges that are facing us in the south-west of Western Australia. The first obvious one is the climate. Since 1975 our in-flows have reduced by about two-thirds into the dams and since 1997 the in-flows have reduced even further so that they're now down to around 115 gigalitres a years on an eight-year average which is down from around 164 gigalitres a year since 1975, which is down even further from the average over the last 100 years. So it's a big challenge facing the south-west.

The second significant challenge is the one about reliable supply. The Water Corporation has spent a lot of money over the last 10 to 12 years in particular boosting its source development program. It spent \$500,000,000 between 93 and 2002, another \$142,000,000 since 2001 on a couple of dams in the south-west and now it's recently announced the desalination project which will come on line in October 2006.

Environmental considerations are very important. Currently around 60-odd per cent of Perth's water supply comes from the Gngangara Mound. It's considered by the EPA to be overdrawn and the abstraction is considered to be unsustainable. There are other environmental issues that are particularly important at the moment as well. One relates to the adequacy of funding for resource management and another relates to the difficulties associated with estimating sustainable yields and aquifers, particularly the South West Yaragadee. So as we increase our reliance on our alternative sources of water, it becomes increasingly difficult to identify the sustainable yield for some of those sources.

Another significant challenge is from competing users. Water Corporation customers use about 25 per cent of the water in the south-west, irrigators use about 39 per cent and the mining and industry sector uses about 18 per cent. The Water Corporation takes only 30 per cent of the water from the Gngangara Mound so there are many competing users out there, of which the Water Corporation and customers in Perth are only one. So it's a challenge to meet the needs of all of those users.

Affordability is a significant concern as we see rising costs from the desalination project and as additional sources are brought on line in the future, affordability will continue to be at the forefront of considerations. Again, as additional expenditure is put to source development, increasing pressure will come on service providers to ensure that they are efficient to limit any price increases on consumers.

So what have been the responses to these challenges? They tend to be grouped into three areas. The State Water Strategy has identified a number of responses. In terms of quantity responses, obviously since 2001 we have had restrictions in place in Perth. Source development is obviously a big issue and there has been a significant response taken by the Water Corporation. Recycling is another quantity response. An example is the Kwinana recycling plant. Other responses include information provision through education campaigns and labelling for water efficient appliances and there are also pricing responses, water pricing, as we're discussing today, the rebate scheme and also trading can be considered a pricing response. It's of interest that the government's irrigation review will be reporting soon. The presentation that follows largely deals with the issue of water pricing and it's argument that water pricing can play a much greater role than it has to date in meeting the challenges that the south-west faces.

I just want to spend a bit of time talking about the objectives of water pricing. One of the key objectives of price is to align price with cost. Now, water is a little bit different to other products in that as we use more and more water, it becomes increasingly difficult and increasingly costly to supply users so the preliminary view we're taking is that consumers not only need to meet the costs of delivering the water to their household and their business, but they also could contribute to the cost of future source development. By that I mean when people decide to use water, there's an impact on or there's a requirement then to find an alternative way or new way of meeting their demand and so as people use more water, additional cost is likely to be incurred in the future so there's a possibility to have people contribute to that cost today.

Our second objective of water pricing is managing demand. Currently the water price tariff above 550 kilolitres increases to \$1.20 and then I think it's above 950 kilolitres it increases to \$1.50. So price is being used to discourage some demand, but it should be noted that only around six per cent of users currently face that high price signal. Price is also useful to encourage optimal investments in source development and recycling. As I mentioned before, by signalling the price of future source developments such as desalination it will give people the opportunity to consider whether or not they are prepared to consume the water and therefore indicate their willingness to pay for that next source development project or whether they would prefer to save the water if it's in their best interests to do so. Having a price that's considered an efficient

price also helps to identify whether there are alternatives to source development that can provide a better way of meeting the supply and demand balance for customers such as recycling.

5 Another objective of water pricing is to move water to its highest value use. This is called "efficient allocation". This is an issue both within sectors and between sectors. Within sectors it's important that customers that value water the most are the ones who use it which is currently a difficult situation given the demand restrictions in place. Another issue is between sectors to ensure  
10 that water within the south-west is put to its highest value use so that if there's opportunities to trade water from the irrigation sector, for example, those opportunities are taken. The price, if we get that right, can signal the benefits associated with such trades.

15 Another objective is to pass on or avoid environmental costs. There are a number of environmental costs; some such as the overdraw of the Gngangara Mound. It's currently not factored in. It's very difficult to identify what the costs are associated with that. I think we're taking 155 gegalitres from the Gngangara Mound at the moment and it's estimated a sustainable abstraction  
20 would be 120 gegalitres. So one issue is over-abstraction of ground water sources. Another issue is to pass on the costs associated with resource management. I will talk more about that later.

25 An objective of water pricing is to recover sufficient revenue for the service provider and it's important that that's done efficiently. The last objective here is to deliver affordable access to water for basic needs. Currently we provide a discount on water consumption up to 150 kilolitres to meet an objective of ensuring that people have a basic amount of water or an amount of water for their basic needs at a reasonable price.

30 So what are the tools for meeting those objectives? The first one is obviously the level of the total bill. A second tool is inclining tariffs with steps which is the current approach that is used. We currently have five steps. So what that means is that the first 150 kilolitres is charged at a certain rate, 41 cents, then I  
35 think it's the next 300 kilolitres or so is charged at a slightly higher rate, then the rate goes up further and further as consumption increases. A typical household would use around 250 kilolitres so they would be on the second block which is around 67 cents as their price.

40 Another tool is to change the balance of the fixed and the usage charge. So a tool is to perhaps increase the usage charge and to reduce the fixed charge which would mean that consumers' bills would be more closely related to the amount of water that they use. Another tool is concessions. We government currently gives concessions to pensioners and seniors. There's also the uniform

tariff policy which ensures that the price up to 350 kilolitres is the same no matter where you live in Western Australia.

5 So let's have a look at the current approach that's used and compare it with an alternative that's suggested in the draft report. I have got the objectives in the left-hand column. Currently around 50 per cent of the bill is fixed charge. Now, this is very high compared to most other cities in Australia; for example, in New South Wales and Victoria providers recover generally around 10 to 30 per cent of their costs through the fixed charge. Managing demand - as I  
10 said before, there's an inclining tariff with five steps.

At the moment environmental costs are reflected in pricing by way of recovering any costs that are associated with meeting licence conditions such as the operating licence of the Water Corporation or the licence associated with  
15 meeting environmental standards. Examples of the environmental costs is the wind-power generation associated with providing electricity to desalination. Generated revenue - currently the process is decided through the budget round as well as through a five-yearly strategic development plan process which the service providers or Water Corporation enters into with the government  
20 enterprises minister, but there are constraints to revenue such as the government's capital constraints.

The government needs to maintain a net debt to revenue ratio so that does limit revenue or the ability of the corporation to spend money on capital. They also  
25 have efficiency targets which are agreed with government. Equitable pricing, as I indicated before, is provided currently through inclining tariffs where the first 150 kilolitres is paid for by having a higher fixed charge perhaps and having higher tariffs for users using a considerable amount of water.

30 What are the alternatives? In the draft report we talked about the possibility of there being a greater relationship between the total bill and the amount used. One of the findings was that if we were to move to a \$1 a kilolitre usage charge, the fixed charge for a typical bill would drop down to around 28 per cent which would be similar to what applies in Sydney and Melbourne.  
35 Another option under managing demand is to rebalance the tariff. It's estimated that if the tariff were rebalanced in ways as reported in the draft report, for example, by moving to \$1 and dropping the fixed charged, that would provide some water savings for Perth. It's very difficult to estimate how much that would be because we're currently in a situation of demand  
40 restrictions, but a reasonable estimate could be around five to 10 gegalitres.

In the draft report we talk about including resource management costs and I noticed many of the submissions included resource management costs. Pricing has some support. What we're talking about here - it's not the entire resource  
45 management costs of the Department of Environment. It would be something

like a third of those. The Department of Environment estimated that the usage charge could be increased by five cents per kilolitre so that gives an indication of the magnitude of the increase that would be required, but we're yet to consider fully whether that should go into the usage charge or the fixed charge.

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I said at the outset that I don't want to talk much about the generating revenue part of this inquiry, other than to say here that what we're suggesting in the report is that enhanced transparency and certainty can be achieved by moving to a slightly different way of identifying the revenue requirements of the service providers through identifying an asset value and having transparent processes such as this to identify reasonable costs. It also provides certainty for the service provider because they would then have those prices agreed with government for a longer period of time than they currently are.

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Rebalancing tariff is an option that could have - it's likely to have better equity outcomes for low water users than the current arrangement. By rebalancing tariffs the interesting thing that happens is that the total bill for users using less than 150 kilolitres actually reduces. So just to summarise, there are benefits of tariff rebalancing. There's a greater relationship between the total bill and the amount used. Households using less than 150 kilolitres pay less, except tenants.

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There's a big issue with tenants. Tenants currently only pay the usage charge and so, of course, any rebalancing has a considerable impact on tenants. It's something that we need to talk through and I will talk a bit more about it in a moment. The other part of tariff rebalancing is that it's easier to understand. At the moment the five-step inclining block tariff is very difficult to understand and it's suggested that moving to perhaps a single charge such as \$1 a kilolitre on usage would be easier.

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Water saving - as I indicated before, it's possible that savings from rebalancing could amount to five to 10 gegalitres. We really haven't done sufficient work on that yet so it's very difficult to estimate that. It's a very technical exercise. We're in a situation where we have demand restrictions so to the extent that people are already constrained in their water use reforming prices is unlikely to have a great impact on water savings in the short term. However, in the longer term the savings could be more considerable.

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Here are the costs, and there are some significant ones here: for an average household using 250 kilolitres there's an extra \$20 in their bill so that means that the usage charge increase more than offsets the fixed charge reduction. There's an extra \$39 for seniors. They get impacted slightly more because they currently have a discount on their fixed charge so that flows through into meaning that they would have a higher bill under this proposal. Tenants would face a \$96 increase because they get hit by the entire increase and usage

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charge. The landlords, on the other hand, are the ones that get their bills reduced. That's to the extent that landlords pass through their usage charges which about 90 per cent do so for the majority of tenants this is what would happen.

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That charge just shows pictorially the impact on a household. As you can see, 29 per cent of households consume less than 150 kilolitres so they would benefit from this reform. 44 per cent who consume up to around 350 kilolitres would have a small increase in their bill. 19 per cent would have a larger

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increase. Under this option people using a lot of water, 600 kilolitres, would actually have a bill reduction. I shouldn't say "a lot of water". Typically a household would use, say, 200, 250 kilolitres if it has a garden and it would probably use about 60 kilolitres per person in the household.

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So say if you had a large household of five persons, you would be looking at maybe 500 kilolitres of water use and so that would indicate perhaps around \$20 to \$30 increase in their bill. Of course these are the increases in the bills that would happen if people didn't change their consumption. So the extent that people did reduce the consumption and we did achieve a five to

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10-gigalitre saving, then the bill increases would be less than what's shown here.

Now, can the price increases to those vulnerable groups identified, the tenants, in particular the seniors and the larger families perhaps, be ameliorated? One strategy that's often used by the corporation is to phase in any bill increase over

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a number of years by limiting an annual increase in the bill to 10 per cent, plus inflation. So that's one option. Another option is to provide more targeted rebates. I have noted the government's rebate scheme has been extended to the end of June 2007. To the extent that customers could be worse off under this arrangement it's an opportunity to perhaps target those rebates to ameliorate the bill increase.

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Water saving packages are options that have been provided in other states. In Victoria, for example, Yarra Valley Water provides water saving packages to

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customers who meet certain criteria. Those criteria include having five or more persons in the household, having a bill increase that exceeds \$20 and having demonstrated that they are incurring hardship as a result of the bill increase. The packages include things like having water-wise plumbers go to the house, do an audit and identify any opportunities for saving water, so

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provide advice but also provide more water-efficient technology for their taps, for their showers and to try and find ways of reducing their water use.

The last one here is landlord incentives. The interesting issue with tenants is that they pay the entire usage charge. Normally a landlord passes it through. This is something I want to explore further with the Water Corporation and

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probably haven't had enough of an opportunity yet to do that, but there's a problem in the market at the moment, I suppose, because landlords don't face any price incentives at the moment to ensure that the houses that they are letting are water efficient and the tenants face very few incentives also because they tend not to be - it depends on the amount of time that they are staying in the house. Some do stay a long time, others stay less, but perhaps the incentive because the house is not owned by them is a lesser incentive to invest in water-saving practices and to put in place more water-efficient technology.

One option that I want to consider is looking at sharing the usage charge between landlords and tenants. If landlords were to face, for example, 30 per cent of the usage charge, then that \$96 increase for tenants would go away. It's an interesting issue. It's one that would have billing implications because you would need to send out bills separately to landlords in comparison to tenants which is actually what happens in other utility industries.

Now, I just want to talk for a few moments on waste water. It's a very challenging issue and this chart, I think, identifies those challenges. Currently waste water is charged based on the property value. Given the range of property values, the range of waste water charges is very large, going from \$236 - I don't know if you can read that. \$236 is the amount which is the minimum charge on the left, and some customers pay over \$700. Now, waste water usage is not something that people can generally control. So there are very few efficiency savings that could be achieved by moving away from the current system and there is significant distribution impacts from moving away from the system.

Now, it's not to say that moving away from the system isn't a good idea. In fact Western Australia is one of the few places that currently prices its waste water in this way. You can see that an average charge at the moment is \$441. There is 1 per cent of customers on the minimum charge that would go from \$230 to \$440, a \$200 increase. So 9 per cent of customers would face an increase of at least \$140. There are benefits, however, of moving away from the current system.

It could be argued that if you were just to charge everyone the average charge, it would be more cost reflective; not as cost reflective as the system in some states. Some states actually are quite technical about how they charge for waste water. They take into account what's called a "discharge factor" which adjusts for whether or not, for example, you have a garden and other factors. It's quite administratively complex. It's quite expensive to administer such an arrangement. There are administrative savings from moving away from the current system. The Water Corporation fields a lot of calls every year. The valuations that are required are expensive so there are few million dollars in savings that could be achieved. However, it's very difficult for customers

probably at the moment to understand how they're currently being charged. Moving to a flat charge would be easier to understand.

5 Now, would moving away from the current system be more equitable? That's an interesting issue. If you go back to that chart, 25 per cent of low-income households live in above average value properties. Let me just go back. So 25 per cent in this category of low-income households are actually up in that category so they're being charged more than average. Around 10 per cent or 10 11 per cent of high-income households, the households with above average income, are down in this category. So it's questionable whether the current system is equitable and perhaps a move away would be more equitable.

15 Bearing in mind that there would be significant transitional issues for a number of those households in low-value properties. I think when this was looked at in the past, it would take six or seven years to transition to a new system if household bills were limited to only a 10 per cent increase per year. Tenants and concession holders with this one are actually shielded from the changes to the extent that the tenants don't directly pay the waste water bill. However, that depends on the extent that it is already factored into their rents.

20 In conclusion, the high fixed charged that currently is in place, around 53 per cent, disguises the costs of water usage to customers. What's suggested is that a better system could be to more directly relate the water bill to the amount of water that's being used. The five-step tariff is also complex and may 25 not be the best way of achieving equitable pricing. If the objective is to deliver that first 150 kilolitres of water at an affordable price, then it's suggested that a rebalancing of the tariffs is a better way of doing that.

30 Aligning prices with costs reveals customer preferences for source development. This is an important issue to the extent that the price takes into account future costs that are likely to be incurred. If they don't want the next source development and they don't want their bills to go up, they can decide to reduce their consumption and therefore avoid the need for that source development expenditure to be incurred. Aligning prices with costs also 35 reveals the value of water and alternative uses. To the extent that people knew that, say, the cost of was, for example, \$1 a kilolitre, then the 40 per cent of water users from the south-west who are irrigators or the 19 per cent industry mining customers would know the value of their water and an alternative use and this could more easily facilitate water trading opportunities. As I said 40 before, residential waste water charging is largely an equity issues. However, Western Australia is out of step with the rest of the country and there could be ways to transition to a uniform charging structure.

45 Finally, there are options for minimising the impacts of change on vulnerable groups and I think we need to be creative on how we identify those to the

5 extent that what's suggested in our draft report could deliver prices that relate to water usage more effectively, to perhaps provide better signals for source development in the future and to the extent to perhaps provide five to 10 gegalitres of water savings. I think we need to look seriously at options for moving to that new pricing structure. It's not as though we necessarily have to do it straightway but there are options that we could look at for minimising the impact on the vulnerable groups. Thank you.

10 CHAIRMAN: Thanks, Greg. Can I ask you to hold your questions? I think we will do that in the panel session directly. Can I now call upon Lloyd Werner? Lloyd is the manager, pricing and evaluation with the Water Corporation. Thanks, Lloyd.

15 MR WERNER: Thanks, Lyndon. I would just like to start off and say that the Water Corporation fully supports the inquiry and its objectives. I think it's important that I come out and say some positive things to start off with because the talk I'm going to give is actually only going to focus on where we find negatives. So to start off with, you know, I want to emphasise that working with Greg has been great. It's a complex set of issues that he's looking at. He's  
20 come across and grasped those really well and I think the level of debate is really good. So the stuff I say later on needs to be put into that context.

25 On the objectives of the inquiry, the level of charges, the average price, as Greg said - we're a bit more concerned about that than the structure and I will have a few things to say about that, but it's important, I think, that we have this inquiry because we are a monopoly service provider and water prices are a contentious issue. The inquiry is an opportunity for the community to be assured that they're not being overcharged and it's an opportunity to get a bit more of a rational process going associated with setting price charges.

30 The tariff structure is also something I think is going to benefit from a broader public review. We have undertaken significant tariff reforms over the last 15-odd years. While we have consulted various industry groups and things like that, there has really not been a complete overview, a public viewing, of what  
35 was going on there and I think it's actually a very valuable thing that we have the inquiry. So that's all the good stuff.

40 I want to put up what the Water Corporation's objectives from the inquiry are because that will inform some of the things I'm going to say. Greg didn't talk about average prices, but essentially the corporation's looking for the inquiry to support our proposed price path. That's one of the key things that the inquiry is about. When it comes to changes in tariff structures, our concerns are that the revenue continues to come in, that any changes can be implemented, including  
45 some of the transition issues that Greg's talking about; things like if you do decide you're going to bill tenants and proportion charges to owners and things

like that, there are all sorts of billing system issues associated with that and changes. They're the kind of things that make good ideas end up being nightmares.

5 Also, we're concerned that the net benefits are there for the community, including when you have the transition issues, the social impacts and things like that. We have got the good of the community at heart, but also the corporation tends to have to explain these things to customers and we have got to be in a position to make sense of those things for them. So we want those  
10 things to be right for a couple of reasons.

The next two points about the capital and operating budget - they're more indirectly what we're concerned with in the inquiry. The inquiry will come out with some recommendations on the price part and the tariff, but underlying  
15 those recommendations is a view on our capital program and on our operating efficiency. I know the people from treasury are quite interested in that outcome so we're looking for that endorsement in that area.

In the capital we're delivering services that are required by the community, regulators and the government. I think we would like that to be recognised.  
20 Also the processes that we have for delivering that - we want to be seen to be properly planning things, prioritising the projects and delivering them efficiently. I guess I will say a couple of things in the next couple of slides about how some of those things were perceived in the draft report. The  
25 operating budget - essentially that's an issue about our operating efficiency and how fast we can improve that and that's of particular concern, I know, to treasury.

We couldn't have this presentation without mentioning the desalination plant.  
30 The inquiry draft report suggests that our price increase should be discounted because we're pursuing the desalination plant ahead of the South West Yaragadee. I guess our opinion is that this doesn't really stack up to closer scrutiny. The current supply situation is that supply and demand are out of balance. We can see that when we look at the security of supply in terms of the  
35 probability that we might face a total sprinkler ban and we do have two day a week sprinkler bans at the moment.

When you look at the potential responses to that situation, the desalination plant was the only option to deliver the water within the required time frame.  
40 The South West Yaragadee is essentially two or three years away at a minimum. So the other thing to note is that the desalination plant and the South West Yaragadee are going to be needed by 2009-2010 so you're just talking about the order in which you do those things. So the desalination plant will reduce the probability of further sprinkler restrictions ahead of what could  
45 be delivered from the South West Yaragadee. So the probability is reducing

and we know that the community places a high value on the security of their water supply.

5 If we have total sprinkler bans, there will be impacts on the outdoor industries, gardening, etcetera, people will lose their gardens and there will be other impacts on the community because we will have browned out the environment. So the government has made the decision to construct a desalination plant. It has done that knowing that it's a more expensive option than waiting to build the South West Yaragadee and it's balanced off the cost to the community of potential sprinkler bans versus that cost and said, "Yes, we need to go with that decision." So in terms of adjusting our price path I guess we're saying that, you know, we should be able to recover the higher cost of providing the desalination plant in that price path.

15 On our capital program, what I'm addressing here is the suggestion in the draft report that potentially we could contract out more perhaps to some other ways of delivering our capital program and maybe we could take 10 per cent off the cost of that program and there's a suggestion that the price increase could be reduced because of that. The corporation is going to fully spend the capital program. We have put our program together at the moment within a budget constraint that's been set by treasury and there's projects lined up to go that we would like to do to deliver risk reduction, improve levels of service, etcetera. So any changes in our capital budget is going to impact the level of service we provide. It's not going to flow through into higher profits. It's not that we're going to spend \$400,000,000 and then spend 350 and pocket the other \$50,000,000. It's not the way the program was put together.

30 The draft report notes that generally there's an underestimate in the cost estimates. That's generally the case. At the moment we're looking at escalating construction, steel and oil costs at the moment and that has the potential to flow through into increased costs for those projects so there's the potential for costs to go up rather than down. The other thing is that we have already got an internal efficiency objective built into our program of 8 per cent. If you are to add 10 per cent on top of that, as suggested in the draft report, it's just unachievable.

40 The report suggests that that 10 per cent was going to be achieved by contracting out and getting the private sector involved in our projects. That's already happening. I have got some major examples up there, but all the projects that we look at - we're looking at what is the most efficient way to deliver that and how we interact with the public, private industry, to deliver those projects. So I guess on that one what we're saying is that we think that assessment of that 10 per cent was a little mechanical and a little unfair on our assessment.

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Operating efficiency is another one. It's been suggested that we could set higher targets for the pace in which we improve our efficiency. I don't intend to read the detail of that chart, but the red columns in both of those are the Water Corporation and that's where we sit compared to other Australian water utilities. The top graph is water and the bottom graph is waste water. So essentially the message to take away from that is that we're not starting as a high-cost provider. We're down the lower end of the scale.

I guess we have achieved that position because we have had a history of setting challenging internal efficiency targets. It's not that we have been sitting back waiting for an inquiry to come along and tell us how to run our business. There's a long history of efficiency improvements from the Water Authority to the Water Corporation and they're in our future projections. The thing is that you're looking for efficiency; you're not looking for simple cost cutting. You can go out and you cut costs. You can take it out of your maintenance. You can take it out of your service standards. You will reduce the cost in the short run but you will be affecting asset life and stuff like that.

We have made a conscious decision in terms of pursuing efficiency to pursue efficiency rather than simple cost cutting. We have major initiatives under way at the moment to maintain the rate of improvement that we are projecting and those targets are challenging and there are many, many initiatives that are required to achieve them. The proposed target that we have is in fact in line with what's expected from the UK private water companies at the moment so in that space we think we're doing pretty well.

The draft report recognised our overall low cost per service but it then had some analysis of our staff numbers which was not quite correct in terms of the underlying data and we believe that that issue needs to be revisited and it will find that we're doing pretty well. So I guess out of that series of slides we're looking at the issue of the 5 per cent reduction in the price path that's potentially been identified, and none of those underlying supporting arguments really stand up scrutiny. The desalination plant's efficient. We're going to spend the capital program and therefore we're entitled to recover that cost. Our operating costs are already low and our improvement targets are challenging and in line with other utilities.

I have got some very similar things to say on the tariff structure as to what Greg said. There's a high degree of alignment there. I guess the first thing to say is that the corporation generally supports the concept of cost-reflective pricing. We have no problem with that as a good goal, but it's one of a number of objectives that we have with our prices and having dealt with the political system over a long period of time, those other objectives are taken seriously by the current process.

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What's proposed, the \$1 a kilolitre tariffs, is an ideal water tariff and, you know, volumetric charge, long-run marginal costs with a service charge to balance. Greg mentioned sewerage charges. If you're looking at an economically efficient tariff, the same would be said for sewerage charges. A  
5 fixed charge isn't cost reflective. If you wanted to go to a cost-reflective charge for sewerage, you would be metering and, of course, the costs of doing that outweigh any potential benefits, but we do support as a general position that the fixed service charge would be good for us. It's administratively efficient and, you're quite right, it's equitable on the basis that customers pay  
10 the same amount for the same service. We have been looking at that as a potential future tariff for many years.

I think Greg has touched upon that. There are other objectives - providing water which is an essential service. "Water for life" it's been called in recent  
15 years. So an essential service at an affordable price. That's the discount price to 150. The steps for the higher tapers discourage higher levels of consumption and many people feel that that sends a very strong signal beyond the number of customers that are at that level. Statewide uniform tariffs are something that needs to be considered. What you do in the metropolitan area  
20 needs to flow through into the country. We have stuck with valuation based charges because the concept of equity that the community has decided there is that sewerage charges should be based on ability to pay.

The costs and benefits of moving to a volumetric charge - just basically  
25 reiterating what Greg said, the view is that under the current restrictions the impact of increasing prices would be very little because people are already having their consumption constrained by other means. If you move out of restrictions, then, yes, there will be an impact and the assessment is between 5 and 10 gegalitres. So in terms of long term there would be an impact. The  
30 graph underneath it is the costs and it kind of summarises some of the stuff that was being put up.

There's option 1 and option 2 there. The purpose option 2 is the adjustment if  
35 you put the taper back in of \$1.50 at 600 kilolitres. Low water users would be better off. The average water users pay a little bit more. Depending on whether you put that \$1.50 taper in at 600, high users could be better off or worse off. It's the three groups on the right that you need to look at it and it's big impact on tenants, pensioners and seniors. So when you're looking at whether that tariff is worthwhile to implement, essentially you've got to say,  
40 "Well, is the 5 to 10-gegalitre saving that we get - is that worth the social impact on those groups?" and it hasn't been the case in the past.

I just want to finish off on the process of the inquiry. I guess the problem with  
45 dealing with tariffs is that the devil's in the detail. The broad concepts you can deal with but when you actually sit down there and you're going through



implementation, you have to know exactly what you're trying to put together and then all the weird little things start coming out of the woodwork. So I guess there was an expectation that we would be seeing some specific recommendations in the draft report on the price path, particularly tariff structures, the implementation plans for the tariff changes and the charging for the desalination plant. They're not there.

There are some things where the report flags further investigations and I guess one of the things we're concerned with is the potential for the introduction of new issues. So it's just to raise the issue that maybe the need to have a consultation process on those needs to be considered rather than just going from this process to the final report. I apologise for the negativity of a lot of that. It certainly doesn't reflect the overall view that we have on how the inquiry is progressing, but I guess we wanted to put the issues that we had on the table. Thank you.

CHAIRMAN: Thanks, Lloyd. Could I ask those who are going to participate in the panel to come up? Just while they're doing that, can I reiterate Greg's words about the degree of cooperation we've received from the providers, not just Water Corp but also Bunbury and Busselton. We've been very appreciative of that support. Can I also welcome Jim Gill who arrived. Jim, welcome. Would the panel members please like to come up and take their seats? Just while they're coming up, just as a sort of a humorous aside on the desal plant, I've got to say the authority was very nervous about putting that in there because recommending it be deferred almost guaranteed we'd have a dry winter, but we were saved because Jim and the government recommended it go ahead which guaranteed we had a wet April and May.

On the panel we have Lloyd you've already met. On my far right - Jim if you'd join Lloyd - Jim Gill who's the CEO of the Water Corp. Greg nearest to me you've met. The other two gentlemen coming up are from the consultancies, Allen Consulting Group, Ray Challen who's next to me and Martin van Bueren. What I would like to do now is just to get an indication - are there people who made submissions to the authority who would like an opportunity to put their point of view? Can I get an idea if there some that would like - if there are, I would like to give them first opportunity. They have gone to the trouble of making a submission. I would like to give them the chance to express that if they would like to.

Are there people that would like to make a statement, if you like, rather than a question? I have one. That's easily dealt with. Okay. If others change their mind, I just want to get a feel for the number. I also need to say that we're actually recording this public forum. Our aim is to put the transcript on our Web site so that those who couldn't get here have an opportunity to hear what happened at the forum. So if you would like to make a statement or would like

to ask a question, can I ask you to identify yourself and if you're representing an organisation rather than your own views necessarily, would you also indicate the organisation you're representing? Unfortunately we don't have a roving mike. You will have to come down to take advantage of the two mikes  
5 down at the front so that we can make sure that we can get the transcription working. So the gentleman at the back - would you like to start?

MR COYNE: My name is Peter Coyne. I'm from Agritech Smartwater. Just in response to the last speaker from the Water Corporation, I find that his  
10 presentation or his dot point presentation seems to be in direct conflict with the situation that we find ourselves in. One of the problems that I had with what he says is that if the Water Corporation is trying to increase the price of water, which we know to be the case, the problem that I have is that last year the  
15 Water Corporation announced a record profit despite the fact that we have had these ongoing water restrictions. What would the situation have been had we been able to deliver the amount of water to the consumers? So that's the first point.

The second point is that I don't think that the Water Corporation has been  
20 sincere and genuine in dealing with private enterprise for alternatives to supply water to ease this current crisis. Ours is a case in point but I won't go into that in detail. I'm more trying to respond to the Water Corporation's submission to this particular inquiry because if you delve into it, it doesn't seem to make a lot of sense. We've also got the problem with the dishonesty, I would say, in  
25 relation to the reverse osmosis plant at Kwinana and the Water Corporation's attempts to say that they have investigated all other options and they have put forward the best option.

My understanding is that one thing that wasn't on the board was the fact that  
30 the Water Corporation through the government is applying at least a \$50 a year levy to maintain the reverse osmosis plant at Kwinana but yet that hasn't been brought out into this particular equation. I have a lot of difficulty with the fact of a whole heap of options to supply water to Perth, but the question that I have for the panel, an particularly Dr Gill, at the end of the day we have this  
35 problem: we have a situation where it has been stated to us that if we don't get this extra 45 gigalitres of water, then we will have increasing water restrictions.

My question is: my understanding is that the DEP has told the Water  
40 Corporation that they are going to restrict their extraction from the Gnangara Mound to the tune of about 30 gigalitres. Don't we still have the same problem that even if we do put in the reverses osmosis plant at Kwinana, we have done nothing more than maintain the status quo? That's all I have to say.

CHAIRMAN: Thanks, Peter. Jim or Lloyd?  
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DR GILL: Yes, thanks, chairman, and thanks for your comments, Mr Coyne. I'm sorry I came late but I guess the classic slide of what's happening to stream flows in Western Australia was not put up earlier on, but if you look at the situation we're facing in Western Australia, it is actually unique in the world in that if you look at the last eight years of stream flows into the dams, they are actually running at one third of the level that applied up until the mid-1970's. In other words, the water coming into the dams is one third of what it was and it seems to be getting worse. Until the mid-1970's there was almost no ground water in the scheme and now we're running at well over 50 per cent from underground. As you pointed out, Mr Coyne, we're under pressure to reduce the take form the aquifers because aquifer levels too are declining largely under drying climate. So that's the situation that we faced.

You made a point that the Water Corporation is trying to increase the prices. The contrary is the truth. We actually try to keep the prices down and we work very hard at keeping the prices down. However, what's happening under drying climate is that we have to go further afield. We have to develop new sources. Each new source in general costs more than the last one because quite logically we try to develop the cheapest ones first and there aren't any really cheap sources left. So that's why we are now going further afield for ground water such as South West Yaragadee and it's why we're now opting for reverse osmosis, sea water desalination, because the economics of that fortunately over the last two decades have improved to the point where just as our drying climate is starting to become a real problem, desalination is a really viable option. So that sums up the background.

You asked if we were able to deliver unrestricted water supply. Under the current prices we would certainly make more profit but I would put it to you that if we were able to deliver under unrestricted water, we wouldn't need to develop as many sources and therefore the prices would actually be lower and therefore the profit would presumably, you know, be roughly the same. So there's a bit of a circularity in the argument there.

You mentioned a \$50 levy for the reverse osmosis plant. The Premier, when he announced the proposal back in July last year, did point out that there would be an increase to cover the higher cost of desalinated water and that it would be less than \$1 a week per household. We're confidently intent to deliver on that. I mean, currently we're looking at about \$44 per year per household. I think you also referred to the participation of the private section in the water industry and we do contract out very extensively. In fact the reverse osmosis plant will be built and, we intend, operated by the private sector over its 25-year service life. Thank you.

CHAIRMAN: Very quickly, yes.

MR COYNE: Dr Gill, the point that I was trying to get to was in relation to private sector an alternative was put up to the Water Corporation to supply exactly the same amount of water without capital costs, without running costs, and the costs half of what you can produce with the Kwinana desal plant and we kept getting knocked back by the Water Corporation. Now, I would have thought that it's in the public interest that you investigate that properly, not the way that it has been because all that's happened to us is that we've got fobbed off.

10 The other point is you mentioned the fact that the stream flows were down, this was down, we've got a global warming, climate change, drying climate. The figures do not bear any of that out and we have exactly the same problem with the proposition we put up to the Water Corporation about retreating 450,000 tonnes a day of water coming out of Wellington Dam that you discharge out to the sea that they don't want to know. They want to tell us all about the fact that they are treating waste water. Well, there is two-thirds of Perth's entire daily water usage and you are putting it out to the sea because you will not meaningful investigate an alternative to supply water cheaper to Perth by that means.

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CHAIRMAN: Jim, quick response?

DR GILL: Yes. Mr Coyne, the volume of water that's actually scoured from Wellington Dam is very much lower than I think you've suggested. I think it's running at about 16 gigalitres per year at the moment under the drying climate or dried climate, if you like, circumstances and the other thing is, you know, the availability of - already Wellington Dam is pretty largely allocated to other users. So we're certainly interested and Wellington Dam does feature in our plans, but you've told us that you have some ideas which would allow the dam to be brought on-stream early and economically.

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We would be grateful to receive the details of those, as we've already said to you and please do bring the details forward, but, you know, when you're running a water utility, water is so essential you've got to have certainty and that's why we go for sources that offer certainty and that's why we develop fallback or contingency options too such as, as was publicised recently, we're planning as a genuine project a second desalination plant just in case the South West Yaragadee does not prove for some reason to be viable. So by all means we would love to examine the details of your project.

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MR COYNE: I just want to get Dr Gill to confirm that he will have a meeting to discuss that because - - -

CHAIRMAN: Can I just say that this is a public forum to discuss the ERA's report. That's a discussion you can have outside the meeting. Can I just

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comment also on the fact that I think, Peter, you made mention that there was no costing for the desal plant in the draft report and that's true in a sense because we're actually suggesting it might be able to be deferred. The government has now made a decision on that and we'll need to take that into account in our final decision clearly. Gentleman at the back - could you come forward, please? Sorry, I'm now going to anyone who wants to make a comment, so please if you would indicate to me if you're interested and I'll come to you.

10 MR.....: My name is (indistinct) from (indistinct) Infratech. I have a short statement and a few questions to the panel. During the pricing presentation there was a note on the objectives to encourage investment in recycling. I notice that the pricing document doesn't clearly state what is the government policy towards investment in recycling initiatives, especially by private sector and, secondly, any pricing structures for recycled water again in developments by fully private sector initiatives. So the question is partly for ERA and also Dr Jim Gill.

20 The second is Mr Lloyd Werner made a statement that Water Corp is a monopoly service provider. It got me confused because I couldn't see any legislation anywhere saying that Water Corp shall be a monopoly service providing this state. So that's just to clarify my confusion because if they are in fact a monopoly provider, then the pricing document and the policies will have to reflect that. The third is a question directly to Dr Jim Gill and, of course, ERA. Is there a state government policy in the light of the state water strategy from Premier's Office and the State Water Strategy Office for involving private sector in water recycling initiatives? Thank you.

30 CHAIRMAN: Can I just deal with the first part of that in terms of the state government policy with respect to the recycling? Can I just say from the ERA's point of view that's not our issue. From the ERA's point of view we're doing an independent inquiry into water and waste water pricing and so we will leave it to government or the Water Corp to explain government policy, but I guess the implication of where we're going and the implication of the presentation Greg presented was that one of the ways in which you can encourage recycling is to make sure that the water we're using is actually reflecting the cost. That then gives you a reasonable basis to look at all the alternatives for different sources of water. So that would be the authority's response to that. Jim or Lloyd?

40 MR WERNER: I guess on the monopoly side of things water and waste water are natural monopoly services. It doesn't matter whether they're in legislation or not. It only makes sense for one pipe to go down the street for each service and I guess the context that we're having this pricing inquiry is that we are a

monopoly service provider and we need to have our prices regulated. If we're not a monopoly, then we can probably all go home.

CHAIRMAN: Jim?

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DR GILL: In terms of recycling, I guess the reason it probably hasn't featured heavily in the documentation and discussions before us now are that at this time it doesn't represent a major contributor to water supply, probably with the one exception of the Kwinana water reclamation plant which we intend will provide for all growth in demand of industry at Kwinana. However, that said, we at the Water Corporation believe that we have to get seriously into water recycling in Western Australia. The fact that we sit over a huge sedimentary strip, the Perth coastal strip, provides us with a unique opportunity. We recognise that we in the Water Corporation by no means have all the answers to that and therefore we're very interested in working with any proponent of sensible recycling schemes so certainly come and see us about that and we would love to talk further about it.

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CHAIRMAN: Quick response?

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MR.....: Given the fact that the (indistinct) in the next 10 years, I believe, I would consider it a serious omission not to consider recycled water pricing or private sector (indistinct) in recycled water (indistinct).

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DR GILL: I think your comments are noted.

CHAIRMAN: Anyone else?

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MR MORRIS: Morris is my name. A query here - down at the Kwinana Sound the seabed is getting dredged out down there, I think, which you all know and I believe that they use two tonne of water for every tonne of material that is extracted from the Sound. Can you answer that if it's true or not?

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MR.....: I certainly can't answer. I don't know.

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MR MORRIS: If it is true, then why document the Water Authority stop the people down there of dredging the Sound and using two tonne of water when you've got this inquiry here for scarcity of water? They own millions of tonnes or trillions of tonnes of lime sands at Dongara which can be railed down to Kwinana and used down there in the process. Why dredge the Sound and use two tonnes of water for every tonne of material? Can the Water Authority answer that?

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DR GILL: We actually can't answer that because that's really an area for the Department of Environment.

MR MORRIS: Yeah, but hang on; it's your water. Forget the EPA or the DEP or whatever you call them. It's your water.

5 DR GILL: No. I mean, the thing is that the Water Corporation is about the water that comes through the scheme. The Department of Environmental Protection actually includes what used to be the Water and Rivers Commission and it's that body that looks after water, manages water, that's taken from the environment, whether it's underground or surface, by other parties such as  
10 mining companies. So it's not part of the Water Corporation's bailiwick and really not covered by the terms of reference of this.

MR MORRIS: We're getting back to Aussie Rules. Everybody passes the ball on; nobody wants to answer.

15 DR GILL: We're the wrong people.

MR.....: I think the answer to the question is the people who need to give the answer are not here.

20 MR MORRIS: Well, can I leave it to you people to follow that up, please, because, I mean, you know, you've got here a scarcity of water.

DR GILL: We can certainly advise you on who to contact.

25 MR MORRIS: No, not for me to contact. I'm retired, I don't need this sort of stuff, but for you people here - you're advertising scarcity of water. What I'm saying is get up and do something about it.

30 CHAIRMAN: Thank you for your comment. Please?

MS MILLS: My name's Kate Mills and I'm representing the Western Australian Council of Social Service and I wanted to make a point and then ask a question. One of the points that I wanted to make was - it was something that  
35 Lyndon commented on - that there are no final recommendations. However, I note in the presentation from the ERA one of the assumptions is that the objective of water pricing is as a demand management tool and we obviously have a bit of an issue with that on the basis that water pricing is actually relatively inelastic which means we're really quite unsure about how much  
40 water saving we could get by jacking the prices up, but what we are certainly sure about is that there are unacceptably high social costs associated with using price as a demand management strategy.

45 Following on from that, I suppose my question for the ERA is how do you envisage balancing the triple bottom line. In this case obviously you're the

5 economic regulation authority. However, is there going to be some sort of acceptance that using economic models produce high social costs - and you can't necessarily ameliorate those just through concessions or rebates - or as a side issue but actually the tower of structures and the way you make those recommendations are going to either increase those social costs or have the ability to actually reduce those social costs.

10 CHAIRMAN: I think in some ways Greg's answered the question in the sense that there are clearly winners and losers, depending on how you adjust water prices, and all of those issues will need to be considered, including not just social costs but the environmental costs and pricing can take those into account. Pricing and environmental and pricing and social costs are not mutually exclusive. The challenge for us to find a way which deals with those. Greg?

15 MR WATKINSON: The way that demand management is used at the moment tends to be for water consumption above 550 kilolitres. As I explained before, it needs to be a reasonably large household, If you assume that 60 kilolitres a year is used per person, a household of five people would be 300 kilolitres. So they would have to have a garden as well. So currently demand management as such in terms of having a price that's increased above what it would be if it were reflecting the costs of water is probably not having a great impact socially to the extent that it's limited to very large households. One of the main social objectives that we have identified in water pricing is one of affordability or "water for life", as Lloyd referred to it, which is about ensuring that water for basic needs is available at a reasonable price. I think we have given consideration to how that can be best achieved which is perhaps by rebalancing the tariff structure.

25 30 CHAIRMAN: I think the issue about the price elasticity - you're right, but it also varies, whether we're talking about "water for life" or discretionary water. It also varies depending on the price you're talking about to some extent as well. So it is relatively inelastic but it's certainly not inelastic. There's a significant debate about where that is.

35 MR TALLEN: Chris Tallen, Conservation Council. Following on from that point, the Conservation Council actually believes that there is good justification for increasing the price of water and that we can accommodate the concerns that are expressed by WACOS in their submission simply by making sure we do have a good system of concessions. I suppose I would be interested to hear just how that system of concessions could be best developed so that it can perhaps accommodate households that have large numbers of people in them and in fact to also consider some of the benefits in sort of bringing about a societal change whereby we don't encourage people to go into extensive watering of huge areas of buffalo lawn that are perhaps already costing them a

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lot in terms of time, forcing them to put lots of fertiliser onto their gardens, or the other sort of downstream environmental consequences that need to be considered as well, but the core of my question is that: what is the detail that goes with the concessional arrangements that would be available to low income earners?  
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MR WERNER: I think the short answer is we're still looking at it and we would welcome feedback and comment. Greg?

10 WATKINSON: I will start off with the second part of the question, the environmental consequences. It's a difficult one to identify. What we would argue is that the cost of water should include environmental consequences, but they're very difficult to identify. The example I gave before is that we're currently overdrawing water from the Gngangara Mound which is having impact  
15 on fauna in the caves in Yanchep, for example, and it's very difficult to identify the cost of that and therefore it's difficult to identify how to include that in pricing. It's not to say it can't be done and I think in the ACT, for example, they do make an adjustment to their price to reflect not only resource management costs, they also have a scarcity adjustment to their price, but they  
20 also try to account for some of the environmental costs.

The concessions point in large households - having a pricing structure that accounts for household size is a very difficult thing to achieve. I think Lloyd can probably comment on this further. My view is that one of the fairest ways  
25 of pricing would be to have a flatter charge because under the inclining block tariff system it does penalise households with larger numbers of people because, of course, the larger number of people in the household, the more likely you are to be in a higher tariff band. So perhaps moving towards a simpler tariff structure can actually provide a more new neutral treatment of  
30 household size than currently under the tariff structure.

As for concessions, all I can say is the example before which is applied by Yarra Valley in Melbourne is to identify families that are suffering hardship and then to directly target them by using a scheme such as water efficient  
35 packages, you know, getting the water efficient plumbers to come and do an audit and help them to find ways of saving water. In that case over there they actually do put in free of charge some water-saving devices.

40 CHAIRMAN: You made the comment early on and Greg also - I think I'm right, from memory, that Water Corp was only a 30 per cent user of the Gngangara Mound in any case so there's an even greater challenge of us trying to address that issue by just looking at Water Corp. Lloyd, did you want to comment?

MR WERNER: Billing on the number of people in households is one of those issues rolls off the tongue really nicely but how you actually practically implement that - you actually would have to record how many people are in each household and have that in your billing system and that's the kind of thing that would be an absolute nightmare to base your charging system on so that's essentially the problem we have on that one.

CHAIRMAN: The problem we've got, I guess, in part is we're talking about the significant cost but we also need to bear in mind that the water costs of this part are actually in terms of other costs quite small. So what we've got to do is be careful that we don't try and build a system that covers all these issues but administratively is so expensive that you actually end up with a significant increase in the cost of water in any case. Even on that worst case scenario, the one that was most penalised, I think it was \$90 a year so we're talking under \$2 a week. Administrative costs if actually try and design something that's extremely complicated could soon eat that sort of money up. Yes, please?

MS MERRY: Yes, my name's Tina Merry. I'm from the Community Housing Coalition of WA. I would just like to support WACOS's submission but also to urge you to consider strongly the social consequences because in looking at large families and tenants as an intersection of people that are severely disadvantaged that are in the rental sector, I think they'll incur double disadvantage, especially large indigenous families. Tenants' capacity to restrict their water use is limited by the fitting of the house that they're in and they also have expectations in terms of keeping their gardens to a certain standard so their discretionary use - they don't always have that much control over it.

I think the idea of - somebody suggested making landlords contribute to consumption. Whilst I can see some merit in it, there's also the danger that it will just add to discrimination in the private rental sector and that large families will face further difficulties of getting private rentals. So I think there's a lot of consequences to consider. As you said, there's a lack of certainty about whether it will achieve the objectives, but I think there's no uncertainty it will definitely cause severe hardship for some families and it's the same group of families that always seem to fall in the too hard to address bucket and I think we need to guard against that. That's really just the points that I wanted to make to make sure those issues stay high on the agenda.

CHAIRMAN: Thanks, Tina. The gentleman in the second row.

MR DOBSON: Yes, my name is Peter Dobson and I have some investment properties so I'm the dreaded landlord. Greg, from your comments I got the impression that you don't really understand how tenants, tenant billing or the non-existent Clayton's tenant billing actually works. Whatever you imagine it to be, it will be nothing like it. We've got no experience with country water

companies so our view is solely to do with Water Corporation. Until such time as Water Corporation are actually forced to actively take on and embrace competition policy, the old culture will remain.

5 After years of coming up against the proverbial brick wall we have found the Water Corporation to be a model of the old uncooperative government monopoly that has no desire or wish to change. Outwardly there is the public pretense of cooperation but at the coalface the same old problems exist. I won't read it all but I will actually give it to you when I have finished so that you can  
10 - after the burst water main incident on the freeway last Friday, which a lot of people appreciated, the acting minister John Kobelke said, "At the time the water main was installed the Water Corporation did not exist," which is true. Why then can Water Corporation which was created due to national competition policy in 1995 continue to use outdated almost 100-year-old laws  
15 to force investment property owners in our supposedly modern user-pay society to be unwilling guarantors to pay tenant water consumption bills?

In the same interview Mr Kobelke said, "The Water Corporation should not be held accountable or liable for things beyond its control." In fairness we  
20 wholeheartedly agree but it needs to be a two-way street rather than only one way. Hypocritically when it should be in our favour Water Corporation employ or use double standards to reject our logic and reasoning when we use the same argument. Water Corporation have a Clayton's pretend tenant billed system where a tenant is registered to be sent a water consumption account  
25 directly by the Water Corporation. The Corporation activity and deliberately discriminate against people who rent, tenants, by not offering or allowing renters the same payment options as owner-occupiers.

The Corporation jokingly refers to these same people who rent as customers  
30 but blatantly refuse to talk to them. If and when after being told the Corporation does not deal or discuss payment options with renters the renter does not pay the consumption account, the Water Corporation merely changes the name on the account to that of the property owner. We have had this argument for 20 years or more and Water Corporation has zero interest in  
35 changing it. So I would like a response on that.

CHAIRMAN: Thanks, Peter. We're happy to take your full paper at some stage. Jim, did you want to comment?

40 MR.....: Can we call on Riley?

DR GILL: Can we dob you in, Riley? Riley Nelson is the manager of the Water Corporation's customer centre so he deals with these issues day by day. Thank you, Riley.

45

MR NELSON: Yes, thanks, Jim. Look, it is true, some of the points you make. We will bill tenants on the request of landlords and owners. The first account is issued to a tenant. They certainly have all of the same options available to owners in payment arrangements.

5

MR DOBSON: Because on the bill, on an owner-occupier bill, you have, "If you're difficulty paying, contact the Water Corporation." That is not on a regular bill. They don't get that option and if they do ring the Water Corporation, they're told to (indistinct).

10

MR NELSON: No, I think you've been slightly misled there. Those payment arrangements are still there.

MR DOBSON: I have heaps of paperwork; heaps of paperwork.

15

CHAIRMAN: Well, let's hear the response.

MR NELSON: I would be happy to deal with that externally, but certainly we do have payment arrangements with tenants and on many occasions we do have difficulties in dealing with tenants today with respect to privacy laws and legislation. We're required to have authorisation from owners before we can deal with them on financial matters and that may be where some of the difficulties are arising, but I would be happy to deal with you outside of this forum if you have those issues and take that up and certainly with any tenants.

25

CHAIRMAN: I think the offer was discuss it with you outside of here.

MR DOBSON: We've already had (indistinct).

30

CHAIRMAN: I think we will leave that issue there. Can I just say from the authority's point of view we need to clearly have a good understanding of how tenants and landlords are treated under the current system and we will make sure we pursue that so that we understand that fully. Is there anyone else? Thanks for your comments. Up the back and then I've got one more over here.

35

Up the back first.

MS GUTHRIE: Thanks, Lyndon. Vanessa Guthrie, and I'm from Alcoa. My question is for Greg. In your presentation you said that one of the responses in pricing was to, if I've got the words right, "encourage optimal investments in source development and recycling", but in the tools that you then went on to describe which are in the inquiry I couldn't see the connection between which of the tools were actually going to encourage that optimal investment. So could you clarify for me where in the rest of the inquiry you see the tariff rebalancing or the other tools will actually deliver that investment encouragement, thanks?

45

CHAIRMAN: Thanks, Greg.

5 MR WATKINSON: Thanks, Vanessa. I think, as I explained, water is a bit  
different from other products in that as we use more water, it becomes  
increasingly expensive to meet the demand. So there's an option under the  
rebalancing approach to make sure that the usage charge component of the  
water bill builds in a signal that not only reflects the current costs of delivering  
10 water to your house but also the costs that your additional usage would impose  
on both yourself and other consumers in the future. So, for example, if we  
were to price the water usage charge at, say, around \$1 a kilolitre which - we  
have had discussions with the Water Corporation as a view that that could be a  
reasonable figure. If we were to price it at around \$1 a kilolitre, that's a similar  
15 figure to the cost per kilolitre of water coming from the desalination plant, for  
example. It's a little bit less but it's a similar figure.

So if you were to price it at, say, \$1 a kilolitre on the usage charge, then it  
gives households the opportunity before a decision is taken to invest in source  
developments such as a desalination plant to reflect on their water consumption  
20 whether or not they're willing to pay for that desalination plant. So it provides  
very valuable information to the Water Corporation and the government about  
people's willingness to pay for expanding their water use because expanding  
water use has consequences. You might need to build a desalination plant,  
therefore there's an opportunity in pricing in this way to not end up needing the  
25 next source development option because if consumers decide that they want to  
reduce their consumption rather than continuing to consume more at that price,  
then it sends an important signal. Does that explain it sufficiently?

30 MS GUTHRIE: I guess that's not (indistinct) in terms of pricing to date.

MR WATKINSON: It is a different way to use prices and it's something, I  
think it's fair to say, that we're having good debate within the ERA about the  
reasonableness of that approach.

35 CHAIRMAN: There's a gentleman at the back.

MR CLARKE: My name is Clem Clarke. I'm actually Victorian. I've been  
here for about three years, and I have to say, first of all, that Perth seems to be  
much more community oriented than the east coast, certainly Victoria. Little  
40 things like buses, etcetera, running around free is excellent. However, I was  
there when Mr Kennett brought in all the changes for the water and I think, for  
example, somebody said that it would be difficult to have billing reflecting the  
number of people in a household. Being involved in computers, I can assure  
you it's a very simply computer program to factor in the number of people  
45 living in a house. So I don't see that as a problem and I do know that families

were hit very hard when the Kennett reforms came in. It sounds a little bit to me as though this is all getting set up to corporatise or privatise water which I rather hope is not so.

5 Finally, I would like to make the comment that I don't recall ever hearing of anyone from the Water Boards over there going out to inspect people's houses to see what could be done to make the household more efficient. Rather, the first thing was some sort of a bill from a lawyer and then the water was either turned off or cut right down to the minimum for the families to exist so I hope  
10 you do it better here. Thank you.

CHAIRMAN: Thanks, Clem. I think there are two issues there that probably need a response. One was the - my mind's now gone blank. Jim, thank you, help me out.

15 DR GILL: Well, I think you mentioned the number of people in the house and that it's easy to accommodate in a computer program and we would agree with that. The only problem is actually knowing how many people there are in the house at any one time. Once you know the number, the computer can look  
20 after it, but actually knowing how many there are in there is the problem.

You mentioned corporatising or privatising the Water Corporation. In fact we were corporatised nearly 10 years ago which makes us exactly like a private sector company with just one shareholder, but as far as I know, there's never  
25 been any mention from any political party in this state of privatising the Corporation, although we do, you know, interact with the private sector. Most of our capital works are done by the private sector and there's no reason why the private sector shouldn't own bits of a water utility such as, for example, a desalination plant, just as they might own a power station in an electricity  
30 utility. What was the last one?

CHAIRMAN: I have got it, thanks. Can I just say the terms of reference that we have got certainly don't include the privatisation issue. It's an issue about water pricing. Greg, the Yarra Valley - - -

35 MR WATKINSON: Yes, it's only, Clem, just come in, I think, over the last few months. It's actually a very recent thing and the other providers aren't doing - as I understand it, they're not as helpful as Yarra Valley.

40 CHAIRMAN: But in the Yarra Valley apparently they are actually doing that, going to houses. Do we have any others? Yes, please.

MR.....: Just one final point, Mr Rowe, Dr Gill said that you don't have control over other areas where water is being used by mining companies, etcetera, and in the draft here it says that you will take matters before the final  
45

report and give it to the government. Can I ask you that the ERA recommend to the government the complete control of all water being used under the Water Authority's umbrella? So that then clarifies all the mining that goes on down south, down at Greenbushes and all that, where they use the aquifers and all that sort of thing and I think that would be 100 per cent better than what it is now because it seems to me that nobody knows who's taking the water from where.

5  
10 CHAIRMAN: Thank you for your comment.

DR GILL: If I can just put your comment in perspective, it's a very good question that you've raised, but what we put - if you take all of the water that's actually used in Western Australia, Water Corporation is responsible for 17 per cent of it, of which 13 per cent is going to residences and about 4 per cent goes to industry. I'm talking statewide, not just the integrated scheme where we are now. Of the other 83 per cent the biggest single user is irrigated agriculture and the next biggest user is mining.

20 Until 1995 in fact the Water Authority of Western Australia did look after all that water and regulated all of its use, but in 96 that was split so that you had the Water and Rivers Commission created to look after the totality of water in the environment and then a couple of years ago that was absorbed into the Department of Environmental Protection. There's now a review going on in the state government to figure out whether that's the best place for it or whether it should be some separate agency, but it's most unlikely, I think, to come back to the Water Corporation. The important thing is that it be done well and that the body that does it be independent and competent.

25  
30 CHAIRMAN: Any other comments or questions, statements?

MS MILLS: Kate Mills from WACOS. I think you got asked the question before by Chris just about what sort of concession packages you would put together and I certainly am aware of the Yarra Valley package, but I think, Greg, in your presentation it illustrated that about 63 per cent of Perth households are going to be facing increased water bills. That's a large amount of families and obviously the people most impacted are going to be seniors and low income earners and tenants.

40 I suppose WACOS would have a lack of confidence in the overall review if the ERA can't actually spell out what water-saving packages, therefore, you know, how actually is that going to ameliorate those price increases? There's a lack of detail and I suppose that's really going to be - the key for us is what concession packages, what water-saving packages, particularly when you're talking about 63 per cent of the population. That's a huge amount of people to

try and cater for. So is there any further detail you can give us about those packages?

5

CHAIRMAN: No, the short answer, Kate, is not at the moment.

DR GILL: I think we will take it on notice that you will judge in our final report on the basis of whether we've done it or not.

10

CHAIRMAN: I mean, I'm not sure we can go much further than we've gone already today on that issue. Yes, please?

15

MR.....: (indistinct) we know personally (indistinct) to install private sector owner operated (indistinct) treatment plant. Primarily water reuse is the main focus. From our experience going through various documents, there's no clear-cut definition of concessions or rebates that (indistinct). May I ask the ERA to consider these things in the concessions, especially for private sector initiatives (indistinct) projects?

20

CHAIRMAN: Thank you. Please?

MS VERANY: My name (indistinct).

25

CHAIRMAN: You will have to come up, sorry. Sorry, you will have to come forward; my apologies. I forgot we were recording it.

30

MS VERANY: My name is Shala Verany. I have just a question about the (indistinct) of the increase on price on the agriculture. I didn't catch it. Did you explain how it will change anything or not, or is it just targeting residential persons?

CHAIRMAN: On agriculture?

MS VERANY: Yes, I think my English is very bad. You know that.

35

CHAIRMAN: No, this inquiry is solely focused on urban water and waste water pricing.

40

MS VERANY: Yes, but the price - is it just linked to individuals or is it linked also to individual working, so working with the agriculture, so farmers? They're individuals. Will there be any (indistinct) for them if you increase the price? It's just a question, sorry.

45

CHAIRMAN: This inquiry is dealing with urban water and waste water pricing, but the government has foreshadowed that they will actually be asking the ERA to look at rural water and our anticipation is that we'll get a reference



5 along those lines later this year, later this calendar year. The issue that's raised in our report which has the potential to have some implications - not out of this report but out one of the issues that we have raised - is the issue about do we have a water shortage problem or do we have an allocation problem and are we allocating water to its most appropriate use and should we be looking at a water trading exercise. That has clearly some implications for water allocation issues and therefore agricultural water as well as urban water, but this inquiry is dealing solely with urban water and waste water pricing.

10 I'm not going to keep you here if there are no more questions or comments. If there's not, thank you very much. Can I repeat again - maybe it's even clearer now - the authority doesn't have fixed views on these issues. We are still listening, thinking, examining and your participation here today has helped us do that, reminded us of some issues that we need to focus on, so can I thank  
15 you most sincerely for making the time to come today? We appreciate it and look forward to continuing that dialogue. Can I ask you, however, to join me in thanking our two speakers, Greg Watkinson and Lloyd Werner, for their presentations today? Thank you once again for coming.

20 **ADJOURNED**