

NOTICE

Inquiry into the Water Corporation's Tariffs

The Economic Regulation Authority's final report on its inquiry into the Water Corporation's tariffs was released today by the Treasurer, Mr Eric Ripper.

The inquiry was a result of a written request by Mr Ripper for the Authority to consider appropriate tariff levels for the Corporation's services and the impact that its recommended tariffs would have on customers and State Government finances.

The Authority's key findings were that:

- The Corporation's tariffs should be increased according to the rise in the eight capital city average Consumer Price Index (as determined by the Australian Bureau of Statistics) for the December quarter 2006, rather than the rise in the Perth CPI for the September quarter 2006. This would increase tariffs in 2007/08 by 3.3 per cent rather than 4.8 per cent.
- Because of climate uncertainty, it was reasonable to budget \$250 million a year in capital expenditure for new water sources between 2008/09 and 2010/11. However, the Authority believed the Corporation's water source planning assumptions (that the average inflows of the last six years would continue and a one in 200 year reliability) may be too conservative.
- Tariff increases to cover the higher capital expenditure should be phased-in to minimise the impact of sudden price increases on consumers, rather than be "front-loaded" as proposed by the Corporation.
- Tariff increases for a particular service should relate as closely as possible to the costs of delivering the service, rather than be spread across unrelated services, as occurs under the Corporation's proposal.
- The productivity rate targeted by the Corporation was consistent with the Government's decision in the 2006 Budget. For the purpose of this report, the Authority accepted the Corporation's operating expenditure.
- Although the most recent estimates of Long Run Marginal Cost (LRMC) provided by the Corporation had increased by approximately \$0.15 per kL, the rise was driven by capital cost pressures that were unlikely to persist over the longer term. The Authority felt it was appropriate to continue to use the LRMC calculations developed as part of the Inquiry on Urban Water and Wastewater Pricing until the next major review.

Mr Lyndon Rowe, the Authority's Chairman, said the inquiry was not a major review (which was expected to occur every three years) but advice on the Corporation's annual Budget submission to the Department of Treasury and Finance.

The Authority's inquiry was conducted under provisions of the *Economic Regulation Authority Act 2003*.

Mr Rowe said the inquiry was consistent with the Government's commitment to implement the National Water Initiative, which required an independent regulator to either set or review water prices.

The Authority's advice incorporates Government decisions made in response to the Authority's recommendations in its Inquiry on Urban Water and Wastewater Pricing (completed on 4 November 2005) and its Inquiry on Country Water and Wastewater Pricing (completed on 23 June 2006).

The recommendations will inform the Government's decisions on the tariffs for Water Corporation's services to apply from July 2007.

A copy of the [final report](#) is available on the Authority's web site.

For further information contact:

General Enquiries

Mr Greg Watkinson
Director, References and Research
Ph: 61 8 9213 1900
Fax: 61 8 9213 1999

Media Enquiries

Mr Paul Byrne
Byrne & Byrne Corporate Communications
Ph: 61 8 9385 9941
Mb: 0417 922 452

LYNDON ROWE
CHAIRMAN

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