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Mr Greg Watkinson  
Inquiry on Competition in the Water and Wastewater Services Sector  
Economic Regulation Authority  
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Dear Mr Watkinson

### COMMENTS ON ISSUES PAPER

The Great Southern Development Commission (GSDC) supports the inquiry into competition in the water and wastewater services sector. The theoretical aims of increasing efficiency, innovation and improved services in this sector have merit.

Water is arguably Western Australia's most precious resource. The State Government's commitment to ensuring regional customers are provided with secure and affordably priced water supplies is underpinned by the WA Regional Development Policy.

With regard to the introduction of additional competitive elements, GSDC makes the following comments:

- The market for water services is not uniform across the State. For example, the market structure in regional WA is markedly different than for the Perth metropolitan area. Therefore the impacts of introducing additional competition will vary, with prospective benefits to regional consumers likely to be more constrained or altogether absent.
- While the Issues Paper does not specifically mention it, many regional stakeholders associate the proposal to introduce competition into the water sector with the disaggregation of Western Power. From a regional perspective, the verdict is still out on the benefits of Western Power's disaggregation. With household tariffs tipped to rise by 40% after 2008, it is not looking good.
- The fact that water is a relatively low cost commodity (compared to electricity and gas) with high infrastructure costs (similar to electricity and gas) suggests that the introduction of certain competitive elements, such as contestable retail sales, are unlikely to be viable for suppliers other than Water Corporation and could therefore be eliminated from consideration.



Furthermore, such competition 'within the market' does little to encourage conservation as competitors will aim to increase their level of sales. This competitive mindset is in opposition to current government programs aimed at curtailing water use.

- Prospects for enhancing competition in the water sector would appear greatest through the competitive procurement process for new water sources such as tendering for a desalination facility for example. Such an approach enhances efficiency and innovation in supplying water, while at the same time maintains security of supply with Water Corporation being the single point of accountability.

In conclusion, it should be noted that the WA Government has recently conceded the need for a rebate in relation to instituting a user pays structure for electricity connections in regional areas. With regards to water infrastructure, economies of scale in many regional towns will never be such that they become attractive to commercial operators or will ever avoid the need for subsidies through CSOs. In this context the notion of increasing competition is largely meaningless.

Moreover, the regional development requirements of WA need to be considered against the current trend towards user pays infrastructure models.

I thank you for the opportunity to provide these comments.

Yours faithfully

BRUCE W MANNING  
CHIEF EXECUTIVE OFFICER