"BUNBURY WATER BOARD"
AQWEST

02 October 2007

*Our Ref:* *NE: W129*
*Your Ref:*
*Enquiries:* *Brad Bevis*
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Inquiry on Competition in the
Water and Wastewater Services Sector
Economic Regulation Authority
PO Box 8469
**PERTH BC WA 6849**

**ATTENTION: MR GREG WATKINSON**
**DIRECTOR, REFERENCES & RESEARCH**

Dear Mr Watkinson,

**RE: ISSUES PAPER – INQUIRY ON COMPETITION IN THE WATER AND WASTEWATER SERVICES SECTOR (20 JULY 2007)**

Further to my correspondence of 31 August 2007, the Bunbury Water Board considered their preliminary response to the abovementioned Issues Paper at their last Board Meeting held on Wednesday 19 September 2007.

The Board has made one amendment by including the following comment in the "Background" section of the original preliminary response:

"In recent financial years Aqwest has provided the following supply fee and consumption rebates to Seniors and Pensioners:

| Year | Amount |
|---|---|
| 2004 | $251,000 |
| 2005 | $254,000 |
| 2006 | $250,000 |
| 2007 | $253,000 |

Aqwest does not receive payment from Government for this Customer Service Obligation (CSO), nor does it intend to seek reimbursement from Government in the future".

A copy of the Board's amended response is shown below. Please note that this submission is no longer considered confidential and the Board approves the publication of their response on your website. An electronic copy of the amended response was forwarded to your office on 02 October 2007.

**Background**

Aqwest is the trading name for the Bunbury Water Board which supplies drinking water to homes and businesses in Bunbury (excluding Pelican Point). The Board was established in 1906 and was controlled by local government until 1996 when it became an independent authority under the Water Services Coordination Act of 1995.

Aqwest has access to a reliable, high quality water resource that is supported by modern treatment plants, storage facilities and network capability. Aqwest has an Operating Licence issued by the Economic Regulation Authority (ERA) which expires in January 2022. The aim and role of the organisation is as follows:

**AIM**
To achieve ongoing success in the water industry based on service excellence and compliance to statutory requirements.

**ROLE**
Provide sustainable, high quality water services at minimum long term cost.
Customer satisfaction levels in 2007 are at historically high levels as indicated below:

| Annual Performance Comparison | Target % | 2007 % | 2006 % | 2005 % | 2004 % | 2003 % |
|---|---|---|---|---|---|---|
| Overall satisfaction with Aqwest | > 85 | 93.5 | 90.2 | 90.5 | 80.6 | 82.6 |
| Overall satisfaction with tap water services | > 85 | 86.7 | 82.3 | 83.5 | 81.4 | 82.1 |
| Customer contact (satisfaction with response) | > 85 | 90.1 | 82.3 | 91.4 | 92.6 | 82.3 |
| No interruption to water service | > 85 | 89.4 | 87.9 | 85.0 | 69.1 | 63.8 |
| Water safe to drink | > 85 | 89.7 | 84.7 | 85.0 | 84.3 | 81.2 |
| Acceptable water quality | > 85 | 84.0 | 80.2 | 81.6 | 75.4 | 73.7 |
| Aqwest charges fairly | > 85 | 77.4 | 69.1 | 75.5 | 68.0 | 69.4 |
| Aqwest informs the public about its services | > 85 | 77.7 | 73.7 | 78.0 | 79.1 | 70.7 |
| Aqwest is planning effectively for the future | > 85 | 35.6 | 37.6 | 45.3 | 52.5 | 54.9 |
| Aqwest is actively involved in promoting water conservation | > 85 | 63.3 | 69.4 | 69.2 | n/a | n/a |

Aqwest accesses the Yarragadee aquifer for all water supplies. Water production and average residential consumption over the last twenty five (25) years since 1982 have been as follows:

| Year | Water Production (kL) | Average Residential Consumption |
|---|---|---|
| 1982 | 6,290,000 | 508 |
| 1983 | 6,620,000 | 525 |
| 1984 | 6,981,214 | 536 |
| 1985 | 6,919,235 | 478 |
| 1986 | 6,324,555 | 460 |
| 1987 | 6,448,025 | 417 |
| 1988 | 5,495,870 | 375 |
| 1989 | 6,644,143 | 347 |
| 1990 | 5,856,502 | 368 |
| 1991 | 6,517,253 | 376 |
| 1992 | 5,928,870 | 341 |
| 1993 | 6,142,456 | 342 |
| 1994 | 6,122,312 | 340 |
| 1995 | 6,947,610 | 375 |
| 1996 | 6,066,883 | 331 |
| 1997 | 6,071,013 | 329 |
| 1998 | 6,557,926 | 322 |

| Year | Water Production (kL) | Average Residential Consumption |
|---|---|---|
| 1999 | 5,671,949 | 295 |
| 2000 | 6,893,000 | 317 |
| 2001 | 7,318,000 | 350 |
| 2002 | 6,482,580 | 300 |
| 2003 | 6,407,652 | 302 |
| 2004 | 6,846,789 | 341 |
| 2005 | 6,594,681 | 336 |
| 2006 | 6,502,829 | 315 |
| 2007 | 6,766,557 | 314 |

Aqwest is a not for profit organisation performing a public service. Aqwest participates in the National Tax Equivalent Regime and pays a tax equivalent to the State Government.

In recent financial years Aqwest has provided the following supply fee and consumption rebates to Seniors and Pensioners:

| Year | Amount |
|---|---|
| 2004 | $251,000 |
| 2005 | $254,000 |
| 2006 | $250,000 |
| 2007 | $253,000 |

Aqwest does not receive payment from Government for this Customer Service Obligation (CSO), nor does it intend to seek reimbursement from Government in the future.

Tax equivalent payments made in recent years are as follows:

2003 $811,000
2004 $729,000
2005 $720,000
2006 $782,000
2007 $838,000

Aqwest does not provide wastewater services.

## Preliminary Comments

Aqwest does not employ an Economist nor has it engaged an Economist or other expertise to assist in the preparation of this response. As indicated in your Issues Paper, the Department of Water is currently coordinating significant legislative change in Western Australia. These legislative changes are required to be completed by 27 November 2007 with associated regulations to be developed in 2008. Given this impending significant legislative change it may have been more meaningful and appropriate for the ERA to initiate this Inquiry at a time following the introduction and "bedding down" of the revised legislation and associated regulations.

Aqwest currently benchmarks with Victorian water utilities in a process coordinated by the Victorian Water Association. From and including 2005/2006 Aqwest is able to benchmark with the following Water Corporation supply schemes:

- Albany
- Geraldton
- Kalgoorlie – Boulder; and
- Mandurah

The relevant information for the abovementioned water supply schemes is published in the following publication:

Australian Government
National Water Commission
National Performance Report
2005/2006
Non-major Urban Water Utilities

Aqwest fully participates in the following two (2) State Government initiatives to restrict water consumption:

- Total sprinkler ban between 9.00am and 6.00pm every day of the year.
- Sprinkler watering restriction to two (2) days per week from and including 01 October 2007.

These are both sustainability initiatives and are not based on any economic principle.

In addition to the above, Aqwest has an annual water conservation campaign which promotes reductions in water consumption.

Aqwest's final preliminary comment relates to page 24 of the Issues Paper commentary which states, inter alia, the following:

*"A competitive supply of services for an entire market approach has also occurred in the provision of services to Dalyellup, to the south of Bunbury in Western Australia. In the construction of a new development, the developer sought tenders from both AQWEST and the Corporation for the provision of water and wastewater services. The competition for the provision of services to the market saw a reduction in the cost of these services in the development"*

For reasons that have been previously well documented, Aqwest does not consider that the above represents an example of competitive supply. Indeed, the developer made some "savings" but, based on average residential consumption, the consumer actually pays more.

It is acknowledged that the purpose of the Economic Regulation Authority's Issues Paper is twofold:

i) To provide background information and outline the issues to be investigated.

ii) Assist stakeholders to understand the nature of the issues of the review.

It is also acknowledged that there will be a further opportunity to provide further information following the release of the Authority's Draft Report on the inquiry, expected to be released in November 2007.

## Water Industry - ISSUES

1) *The Authority is seeking further examples of ways to achieve greater economic efficiency and sustainability through increased competition, in the water and wastewater industry.*

   What are the measures of greater economic efficiency and sustainability?
   How will the success or otherwise of any increased competition be measured?
   Who will be held accountable for any failure?

   Aqwest benchmarks favourably on price with other water utilities and is currently enjoying historically high levels of customer satisfaction. Both efficient prices and quality customer service are being delivered.

   Aqwest is fully cognisant of the requirements of the Australian Drinking Water Guidelines. Aqwest sources a significant proportion of operating tasks and capital works through competitive tendering processes.

2) *The Authority has identified the following broad types of competition: centralised procurement, trading and retail competition, and comparative competition. In addition, third party access is a mechanism that facilitates decentralised procurement, trading and retail competition. The Authority is seeking comments on whether this framework encompasses all of the potential commercial opportunities that might exist.*
   Aqwest does not have an expert knowledge of the potential commercial opportunities that might exist in this area.

3) *Centralised procurement approaches can take the form of competitive supply for a project, an outcome or the entire market. The key institutional and legislative consideration identified thus far relates to determining where responsibility lies for determining the scope of works for which tenders are to be sought and the assessment of any submission received. The Authority is seeking comments on the most appropriate institutional and legislative arrangements to ensure effective use of competitive supply opportunities.*

   Each licenced water utility is the most appropriate organisation to ensure the effective use of any competitive supply opportunities. Each water utility would therefore accept the responsibility. Such responsibility cannot and would not be accepted by any third party.

4) *What barriers to competitive procurement need to be removed?*

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5) *The Authority is seeking comments on any constraints to the use of water trading as a source of bulk water.*

   This matter is being addressed in revised legislation which is being coordinated in Western Australia by the Department of Water (DoW).

6) *The Authority is seeking comments on the most appropriate way to ensure efficient service provision in uneconomical areas.*

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7) *The introduction of a State-based third party access regime would require a decision about the comprehensiveness of the regime, a contestable retail market, appropriate licence conditions, an access price, and a consideration of structural issues. The Authority is seeking comments on these and other matters that would assist in an assessment of whether the benefits of a State-based access regime outweigh the costs.*

   Aqwest does not have the resources or expertise to address the significant points shown at Issue 7. Rather, Aqwest considers that the ERA should facilitate a suitable forum between licenced water utilities and the ERA so that this issue can be discussed and progressed.

8) *Would a State-based access regime result in commercial operators entering the market?*

   Possibly, but only at the profitable end of the market, i.e. cherry picking.

9) *The introduction of trading and retail competition would require the establishment of a contestable market, appropriate licencing conditions and a consideration of structural issues. The Authority is seeking comments on these and other matters that would assist in assessment of whether the benefits of trading and retail competition would outweigh the costs.*
   See comments at Issue 7.

10) *Would the removal of barriers to trading and retail competition result in commercial operators entering the market?*

    Possibly, but only at the profitable end of the market, i.e. cherry picking.

11) *The introduction of a comparative competition regime would require the creation of comparable businesses and the development of a regulatory regime that would provide incentives for businesses to outperform their counterparts. The Authority is seeking comments on these and other matters that would assist in assessing the appropriateness of a comparative competition regime.*

    Western Australia has three (3) public water utilities as follows:

    a) Water Corporation
    b) Aqwest – Bunbury Water Board
    c) Busselton Water

Meaningful comparative competition between (a) and (b), and (a) and (c) is probably not possible due to significant differences in business size and scope.

*12) The Authority is seeking comments on any issues interested parties consider relevant to the inquiry which have not been identified in the Issues Paper.*

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*13) The Authority is seeking comments on other ways in which competition can be increased in the water and wastewater industry.*

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*14) The Authority is seeking comments on the areas to which it should pay most attention when developing its recommendations, to allow for the greatest introduction of competitive pressures and the delivery of the greatest benefits to customers.*

When developing its recommendations the Authority should pay most attention to the following:

- Supplying good quality drinking water is a fundamental public health requirement and a Government responsibility.
- The significant legislative change that is currently occurring in the Western Australian water industry.
- The time honoured concept of "…. if it's not broken then don't fiddle with it".
- The "expertise" that currently exists in Western Australia's licenced water utilities.
- The "track record" of Western Australia's water utilities who have provided outstanding service and value for money for over one hundred (100) years.
- Whether tax obligations in any altered supply arrangement will be paid to the State or Federal Government.

Yours faithfully

Brad Bevis
**CHIEF EXECUTIVE OFFICER**