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Dear Lyndon

INQUIRY ON COMPETITION IN THE WATER AND WASTEWATER SERVICES SECTOR

The Independent Market Operator (IMO) welcomes this opportunity to provide a submission regarding the Economic Regulation Authority (the Authority) Draft Report on its inquiry into competition in Western Australia's water and wastewater services sector.

One of the recommendations made by the Authority in its Draft Report is the establishment of an Independent Procurement Entity (IPE). The IPE would be charged with responsibility for *"ensuring least expected cost balancing of supply and demand, subject to maintaining a level of water security determined by government"* [Page 37]. The IPE would procure a portfolio of "call options" for alternative water development proposals and, in cooperation with the Water Corporation, would schedule the development of these to meet the requisite supply requirements.

The Authority has included extracts from various submissions made during the preparation of its Draft Report. One of the suggestions that has been made [page 45] is that the IPE could reside within the IMO given the similarity of the roles and the need to minimise overhead costs.

The IMO would like to offer the following comments with respect to this proposal:

- The IMO notes the possibility that the proposed IPE could be housed within the IMO. The IMO supports such a proposal in principal and considers that this could provide significant benefits to the effective and efficient operation of both industry sectors.

- The role of the IPE, as indicated in the Draft Report, has close parallels to that of the IMO. In particular, the key function of both entities is to ensure that the operation of their respective markets, water or electricity, is undertaken in a manner that effectively meets clearly defined market objectives. The imperative for independent operation is a key to both entities and clearly differentiates them from most other entities within the respective industry segments.
- The IMO already has processes and procedures in place to certify electricity generation and demand side management proposals. These could form a sound basis for consideration of water supply and water use management proposals.
- There would be significant overhead costs in establishing and operating the IPE as a separate entity. Irrespective of the approach adopted, some staff with essential core "water" competencies will be required by the IPE. However, incorporating the IPE as part of another entity, such as the IMO, would minimise the requirements for Board members, operation and support staff, and associated office accommodation and other infrastructure.
- The IMO acknowledges that it would need to expand its knowledge base to incorporate the specific skills associated with water planning. However, the existing IMO staff has a strong background in long term forecasting, computer modelling and in following strict operational procedures.
- The IMO notes that recruitment and retention of staff with the requisite strong analytical background is proving particularly difficult, for both Government and industry, in the present economic climate. The broader range of responsibilities that would exist within a combined IPE-IMO entity would provide a broader range of experience and opportunities than could be provided by either of the stand-alone entities. This would be a major advantage for staff recruitment and retainment. Combining the two entities would also allow the more efficient utilisation of relevant staff.
- Combining the functions of the IPE and the IMO would parallel the operation of the ERA in its water and electricity regulatory functions. The IMO, however, notes that if the IMO's and IPE's responsibilities were combined, issues such as Ministerial portfolio responsibilities, industry funding and general administrative issues would have to be considered and appropriately addressed.

I would welcome the opportunity to discuss our submission with you and any other relevant issues which may arise in developing your final report on the inquiry.

Yours sincerely

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ACTING CHIEF EXECUTIVE OFFICER

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