



Mr K Peter Kolf
General Manager
Economic Regulation Authority
Level 6, Governor Stirling tower
197 St Georges Tce
Perth Western Australia 6000

Dear Mr Kolf

Competition in the Water and Wastewater Services Sector

Thank you for the letter and Attachment of 9 April 2008 raising a number of issues about current water policies and the impact on competition and efficiency in the water sector. We are working through the issues and intend to provide a detailed written response shortly.

To assist with our scheduled meeting on Friday, 11 April 2008 our preliminary comments are set out below.

1 Legislative authority

As advised in our primary submission, legislation governing the water sector is currently undergoing major reform. Part of the reform process is to create a level playing field for all water service providers, including revision to the authority of the Minister over, for example, the Water Corporation so that all service providers are to be subject to the same governance requirements. Also, there is to be extensive reform to the management of water resources which will support the development of water markets. In this context, there may only limited value in providing information about the authority of the Minister and the role of the Department of Water (DoW) that is to be superseded.

2 Supply Policies and Competition

The Authority has suggested that the DoW may be inadvertently acting in a manner counterproductive to the promotion of competition through its administrative policies. These policies are designed to ration and allocate the supply of water in the absence of rationing and allocation through the price mechanism in an effective market. This outcome would not necessarily be anti-competitive as competition would require an effective market which would ration and allocate the supply of water according to price and the willingness to pay. In the absence of such a market the DoW has sought to apply programs such as the water efficiency and conservation programs which the Authority has suggested may be anti-competitive.

At this stage there is no effective water market and for one to develop would require amongst other matters, the abolition of the Government's uniform pricing policy, scarcity pricing, significant elasticity of demand to price changes and access to infrastructure. Also, an effective market would need to price and account for:

- access to and supply of affordable potable water as a basic human right. This right means that in the absence of compensating transfer payments a minimum supply of water to meet basic needs would have to be priced accordingly;
- the basic human rights to affordable water of future generations also needs to be taken into account in water supply policies. The current response is for water supply to be set aside for future use. In criticising this policy the Authority is suggesting that the current generation should use up all of the lower cost water supplies and leave as a legacy to future generations higher cost supply options. This outcome may prove to compromise the rights of future generations to affordable water supply; and
- externalities such as environmental impacts are not readily accounted for in competition and market determined prices and there would need to be some form of non-market intervention such as the current policy stance which would apply to all water service providers and therefore would not be anticompetitive.

In the context of water trading, the DoW acknowledges that the trading framework under the *R/WI Act* is overly prescriptive and interventionist and is being superseded by the framework under the National Water Initiative which is less interventionist but requires, amongst other matters, the establishment of consumptive pools and an effective trading mechanism which take time to develop. Moreover, the DoW is not opposed to the use of neutral auction techniques for the allocation of water in close to fully allocated sources. Tendering may also prove to be an effective allocation mechanism.

3 Unequal treatment of Water Corporation

The Authority has commented that the DoW has treated the Water Corporation unfairly by requiring it to reduce its abstraction from Gngangara Mound. To the contrary, the Corporation is in a privileged position in that it is the only licensed service provider that has access to both the superficial and confined aquifer(s), with other service providers only having access to the superficial aquifer. Secondly, and as previously explained, the Corporation is in deficit and has to pay back over drawn water to the Mound under the variable draw-down rule which accommodates higher draw downs during periods of lower rainfall adversely affecting supply options from other (surface) water sources. It is also the case that with the roll out of the metering program the DoW is better able to manage the overuse of water draw downs against licence allocations and entitlements.

Concluding comment

The DoW recognises that any move by the Government towards a more market-oriented approach to water supply and demand management in which price signals play a greater role in source development, water allocation and rationing would require changes to current policies and practices. The current policies and practices have been developed in the absence of an effective water market.

Should you have further inquiries please contact Mr Shane O'Donohue, Industry Development, Policy and Planning, the Department of Water, on (08) 6364 6814.

Yours sincerely


John Loney
A/DIRECTORGENERAL
11 April 2008