



Department of Industry and Resources
Government of Western Australia

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Mr Lyndon Rowe
Chairman
Economic Regulation Authority
PO Box 8469 Perth Business Centre
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Dear Mr Rowe

INQUIRY INTO DEVELOPER CONTRIBUTIONS TO THE WATER CORPORATION

The Department of Industry and Resources ("DoIR") appreciates the opportunity to make a submission to this inquiry.

DoIR supports the approach adopted by the Economic Regulation Authority ("ERA") of efficiency, equity and good corporate governance aspects in considering each issue.

Headworks Charges

DoIR recognises that options 1 and 2 suggested by the Water Corporation and ERA are improvements. Option 1, a state-wide uniform charge based on existing distribution assets for water and wastewater continues the current approach, while refining the method of calculation. Option 2, in applying a specific headworks charge for each scheme, based on the total cost of the scheme's distribution assets, recognises that costs vary depending on geographical location.

DoIR supports ERA's recommendation to adopt the modified option 2 as long as administrative costs are reasonable. It is important to encourage location efficient development. Community service obligation payments, direct from Treasury to the Water Corporation, will continue to allow regional development to occur where appropriate in areas of high cost.

Headworks Charges for Major Users

DoIR acknowledges the position of key stakeholders that, given its long-term nature, water infrastructure can be funded by government, with costs recovered over the life of the project. While still achieving cost recovery, this means that developments can proceed without companies having to fund substantial capital outlays up front, when revenue may not have started to flow.

There seems to be no consensus on how major consumers should pay for the construction of new infrastructure to meet additional demand. As such, DoIR requests that the approach adopted allows for the consideration of not only cost recovery and risk but also the facilitation of investment in the state.

DoIR supports recommendations 26 (balancing administrative costs and cost recovery) and 27 (transparency of calculating notional costs). Further work is required on the issue of balancing risk between the Water Corporation and developments that add to the demand for new infrastructure.

Other Issues

This inquiry has highlighted the importance of good regulatory practice. In order for water resources to be put to best use for the community, it and its infrastructure must be regulated and managed efficiently and transparently. DoIR therefore supports the ERA's principles of good corporate governance, such as independent regulatory scrutiny, transparency of charging methodology and an appeals mechanism.

While it is appropriate for the Water Corporation to have a development schedule for water infrastructure, a developer may have the capacity and preparedness to fund works ahead of this schedule. DoIR supports developers being required to contribute up front to out of sequence developments, with this contribution being refunded after an agreed time. Such an approach can help facilitate responsible economic development.

Achieving dynamic efficiency will often require a system to be constructed or augmented in anticipation of future demand growth and in a manner that results in spare capacity. If existing customers were charged for this planned spare capacity, this would be an additional cost independent of existing customer demand.

DoIR supports the recommendation that the Water Corporation, not existing customers, bear the risk of excess capacity incorporated in over-sized assets not being absorbed by demand growth. Allocating risks in this way may provide a balance between the desire to achieve dynamically efficient future investment decisions whilst not providing incentives to over-investment in capital.

Yours sincerely

Colin Slattery
A/Assistant Director General
STATE DEVELOPMENT STRATEGIES

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