



CONSULTATION

Draft Report on the Efficient Costs and Tariffs of the Water Corporation, Aqwest and Busselton Water Board

INVITATION FOR SUBMISSIONS

The Economic Regulation Authority (ERA) has today released its [Draft Report](#) on the efficient costs and appropriate charges for the services of the Water Corporation, Aqwest and the Busselton Water Board.

Water Corporation's submission to the Authority equates to a revenue requirement of \$7.98 billion for the period from 2013/14 to 2015/16. The Authority's draft recommendation is that the revenue requirement for Water Corporation, based on efficient costs, should be \$5.82 billion for the period from 2013/14 to 2015/16. This is 27 per cent below what Water Corporation had proposed. The main difference between the proposed and recommended revenue requirement relates to a reduced rate of return that it receives on its assets, and a reduction in Water Corporation's asset base.

Charges for water services are based on a fixed charge and variable charge. The Authority has recommended that this charging structure for water services be maintained. Charges for wastewater services are currently based on property Gross Rental Values (GRVs): The higher the GRV of a property, the higher will be the wastewater charges that apply. The Authority has recommended that this charging structure be abolished and that wastewater charges be levied as a single and equal fixed charge payable by all customers.

If implemented, the tariff recommendations contained in this report will bring about a reduction in the aggregate payment that is made by most metropolitan households. The amount of reduction will depend on the volume of water that is consumed and the Gross Rental Value of the property in question. For a household serviced by the Water Corporation in the Perth metropolitan area with annual water consumption of 250 kilolitres, and an average property value, the aggregate water and wastewater bill payable will reduce by 10.5 per cent or \$128 in 2013/14.

For country customers serviced by the Water Corporation, the price impacts will vary depending on the location of the customers. However, overall price movements for residential country customers would be similar to residential customers living in metropolitan areas. That is, the customers will face an increase in water payments and a decrease in wastewater payments. Like the situation in the metropolitan area, the decrease in wastewater payments more than offsets the increase in water payments in 2013/14 so that most country customers will benefit from a decrease in their combined water and wastewater payments in the first year of the price review period.

Under the Authority's recommendations, commercial customers in both the metropolitan and country areas will face higher water charges and lower wastewater charges. However, when water and wastewater payments are taken together, both metropolitan and country customers will, in net terms, be better off.

For the Water Corporation's water services, the downward pressure in costs due to a lower rate of return and asset base is offset by increases in other costs, largely due to the need to fund new projects, such as the Southern Seawater Desalination Plant due to Perth's drying climate. It is for this reason that as a stand-alone service, water prices for metropolitan customers increase by an average of 3.6 per cent (or \$20 in 2013/14) under the Authority's recommendations.

However, cost pressures associated with additional capital and operating expenditure are not as significant in the provision of wastewater services and hence there is a sizeable decrease in the cost of wastewater service provision. The Authority believes these cost savings should be passed on to consumers, and has accordingly recommended a reduction of 22.2 per cent (or \$148 in 2013/14) on average for metropolitan customers and a reduction of 13 per cent (or \$88 in 2013/14) for country customers. However, some customers with low GRV properties will face an increase in wastewater charges. These increases have been capped at \$50 per annum.

For Aqwest, the Authority recommends a revenue requirement of \$32.9 million, compared to the proposed a revenue requirement of \$35.8 million for the period from 2013/14 to 2015/16, and for Busselton Water, the Authority recommends a revenue requirement of \$21.8 million, compared to the proposed a revenue requirement of \$23.1 million for the period from 2013/14 to 2015/16. These relate to water services only, as wastewater services in these areas are provided by Water Corporation.

Residential customers with annual water consumption of 250 kilolitres in Bunbury (serviced by Aqwest) and Busselton (serviced by Busselton Water) would face increases in their water bills of 11.4 per cent in 2013/14 (\$36) and 8.0 per cent (\$32) respectively. Annual percentage increases of similar magnitudes will apply in each of the remaining two years of the price review period. This is because the efficient level of costs of (operating and capital) costs for both businesses have recently been, and are expected to continue to be, relatively high.

The ERA is now calling for submissions to the inquiry (due 22 October 2012). After considering submissions, the ERA will provide a final report to the Treasurer by 2 November 2012. The final report will become public within 28 days of receipt by the Treasurer.

Interested parties are invited to make submissions on the Draft Report by **4:00 pm (WST) on Monday, 22 October 2012.**

Submissions should be marked to the attention of Assistant Director, References.

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Confidentiality

In general, all submissions from interested parties will be treated as being in the public domain and placed on the Authority's website. Where an interested party wishes to make a submission in confidence, it should clearly indicate the parts of the submission for which confidentiality is claimed, and specify in reasonable detail the basis for the claim. Any claim of confidentiality will be considered in accordance with the provisions of *Economic Regulation Authority Act 2003*.

The publication of a submission on the Authority's website shall not be taken as indicating that the Authority has knowledge either actual or constructive of the contents of a particular

submission and, in particular, whether the submission in whole or part contains information of a confidential nature and no duty of confidence will arise for the Authority.

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CHAIRMAN
25 September 2012