

Water Corporation welcomes the opportunity to comment on the Issues Paper released by the Economic Regulation Authority on the Inquiry into Microeconomic Reform within Western Australia.

We have identified 5 opportunities with the potential to improve the productivity and flexibility of the Western Australian economy. These opportunities are outlined briefly below:

1. Tariff reform for wastewater and drainage charges

It is the view of the Corporation that the tariff structures for water services should be determined on a volumetric basis reflecting the long-term cost of augmenting supply. This provides an important pricing signal to encourage efficient consumption relative to the cost of source development.

2. Integrate planning and operations with other utility sectors including both public and privately owned service providers to facilitate orderly growth of strategic infrastructure within the State and provide for strategic shared corridors.

Such an approach would facilitate efficient roll out of infrastructure assets by reducing construction costs. This would occur because of improved information exchange on the timing of proposed major construction work, being able to take advantage of open trenches or reducing the amount of reinstatement work which would in turn minimise inconvenience to the public. Extra flexibility may need to be built in to funding arrangements to accommodate bringing forward infrastructure projects.

This may reduce the frequency of the need to relocate existing assets and associated costs. It may also reduce costs associated with protecting infrastructure assets if sufficient buffers are accommodated within the same corridors.

3. Rate of return

The establishment of an appropriate rate of return is fundamental to setting customer prices and ensuring the ongoing viability of both the Water Corporation and the provision of water services in Western Australia. Investments in water services infrastructure such as dams and pipelines, complex treatment plants and simple wastewater ponds, sewers and drains can last for 100 and more years. The return on investment, being the weighted average of the cost of debt and cost of equity multiplied by the regulatory asset base forms a significant component of prices for water services. The current approach to determining regulated rates of return incorporates short term volatility of financial markets. This volatility is reflected in prices for services.

It is our understanding that both customers and Government would prefer more stable and consistent prices over time to facilitate budgeting at household, small business and State Government levels.

Furthermore, we actively seek private sector investment in water service assets as a means of sourcing innovation and efficiency, which provides a complementary source of funding for Government, which is focused on fiscal and debt restraint. The private sector needs higher and less volatile rates of return than

those resulting from the current regulatory approach in the current market to support investment in long-lived assets. This supports taking a longer term view of the cost of funds for determining prices for services.

4. Relocation of assets

There are inconsistencies as to which party should bear the costs when existing utility infrastructure is to be relocated. The business case justification for relocation or redevelopment of major infrastructure should take into consideration the costs of all utilities affected by the project.

We would advocate for a formal Code of Practice/Regulation defining the 'Utility Corridor' for placement of utility infrastructure together with guidelines as to who should pay for relocations. As a general rule, the proponent for change should pay relocation costs.

5. Performance reporting requirements

Like many other utilities, we must provide performance-related data to numerous agencies and departments. There are multiple forms of indicators which need to be calculated for the same activity required by different agencies. Standardising the measures of performance would reduce data collection requirements and the associated costs.

Similarly, we have an independent board of directors whose responsibility it is to govern the operation and performance of the Corporation. The directors are subject to similar obligations as directors of public companies. The financial reporting requirements to Government are extensive and therefore, streamlining reporting requirements would improve productivity.

If you require any further clarification or have any questions please do not hesitate to contact Deb Evans on (08) 9420 2451 or via email deb.evans@watercorporation.com.au. It would also be appreciated if you could advise if the content of this email is to be made public.

Regards,

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