



Department of Local Government and Regional Development
Government of Western Australia

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Dr Ursula Kretzer
Inquiry on Country Water and Wastewater Pricing
Economic Regulation Authority
PO Box 8469
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Dear Dr Kretzer

Thank you for the opportunity to provide feedback on the draft report prepared by the Authority as part of the Country Water and Wastewater Pricing Inquiry. The Department provides an advocacy role for regional Western Australia and the pricing of water services is of significant importance to the economic development of the regions.

Please find below the Department's submission on matters raised in the draft inquiry report.

Residential water pricing

Proposal

Finding 4 proposes that consideration be given to introducing a pricing regime that places greater emphasis on encouraging efficient water use. Specifically, the proposal would provide that residential customers across the State would pay the same tariff for water used up to an average amount for the town they live in. Above this level, the tariff would be set at the long run marginal cost for the provision of water for that area.

Department response

It should be noted that the State Government Regional Development Policy includes the following commitments regarding the pricing of water:

- *The Government has firmly committed to the principle of uniform energy tariffs and water prices to ensure that the cost and availability of energy and water enhances regional Western Australia's economic competitiveness.*
- *Ensure that recommendations made by the Economic Regulation Authority fully consider the needs of regional residents and businesses¹.*

These commitments need to be considered when determining whether the current pricing arrangement for residential water pricing is appropriate. Changes to the tariff structure may result in an increase in the average charge for regional customers.

¹ Page 33, "Regional Development Policy 2003: Regional Western Australia - A Better Place To Live"

If a change to the pricing structure is to be introduced, it is suggested that the calculation of LRMC be transparent and that its determination be undertaken on a regular basis.

State Government concessions

Proposal

Findings 7 and 8 relate to concessions provided to seniors, pensioners and other concession card holders.

Department response

The Department supports the proposal for a review of the State Government's concession arrangements and would be a willing participant in any review process.

Commercial water pricing

Proposal

The Authority has been requested to make recommendations on the effectiveness and efficiency of the service charge structure for businesses and the merits of any alternative charging structure for country towns. The Authority will be giving further consideration to commercial fixed water charges within the context of cost-reflective pricing as it prepares its final report.

Finding 10 states that it is not clear that it is the Government's intention in its uniform pricing policy to provide discounts to commercial users.

Department response

The Department notes that country commercial users face higher water consumption tariffs, at any level of consumption, than commercial users located in the Perth metropolitan area. In addition, the threshold for the lowest tariff applies to water usage up to 300kL in country areas, compared with 600kL for metropolitan users. It is also noted that fixed charges are uniform across the State.

The commitments made in the Regional Development Policy (quoted above) need to be considered when determining whether the current pricing arrangement for commercial users in regional areas is appropriate, or whether there should be consistency in the consumption charges of regional and metropolitan customers.

Residential wastewater pricing

Proposal

Within findings 14-18, the ERA is seeking views on whether a more cost reflective pricing mechanism is appropriate and whether the rate in the dollar cap should be removed.

Department response

The Department notes the following:

- Charges for a particular property are determined by applying a rate in the dollar to the GRV of that property.

- Charges levied for customers in a particular town are intended to recover the costs of the wastewater services provided in that town.
- The ability for charges to recoup costs is restricted by the requirement for the rate in the dollar to be no greater than \$0.12.
- The rate cap serves to shift the relative contribution from customers in high value properties to those in low value properties. This contributes to the outcome where country customers in low value properties pay higher charges than customers with similar valued properties in the metropolitan area.
- The pricing mechanism used to determine commercial wastewater prices has an impact on the charges levied on residential users. That is, residential users in towns with high wastewater costs, currently have to pay more relative to commercial users than in towns with low wastewater costs.
- On average, the revenue from a wastewater scheme comprises 70.4% of expenses. However, on a network by network basis, the charges applied bear little relationship to the costs of providing the service.

It is acknowledged that the GRV of property does not have a perfect relationship with the income of the owner. However, given that GRV is used to calculate the wastewater charges for metropolitan based residential customers, the Department does not support a change to the pricing mechanism at this stage.

In relation to the rate cap, given the anomalies that the application of this cap causes, the Department supports consideration being given to either increasing the value of the cap or its removal.

Commercial wastewater pricing

Proposal

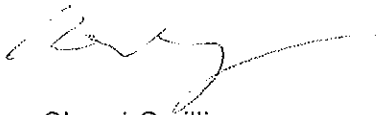
Finding 20 indicates that the Authority's preliminary view is to recommend greater cost reflectivity for commercial customers.

Department response

The Department notes that the same pricing mechanism applies to regional and metropolitan customers. As a consequence, given that the cost of providing the wastewater services will vary from town to town, the proportion of costs that are recovered will also vary.

The commitments made in the Regional Development Policy (quoted above) need to be considered when determining whether the current pricing arrangement is appropriate.

Yours sincerely



Cheryl Gwilliam
DIRECTOR GENERAL

72 March 2006