

Mr Lyndon Rowe
Chairman
Economic Regulation Authority
GPO Box 8469
PERTH BUSINESS CENTRE WA 6849

INQUIRY ON URBAN WATER AND WASTEWATER PRICING

I refer to your letter of 19 August 2004 regarding the Economic Regulation Authority's Inquiry on Urban Water and Wastewater Pricing.

The Small Business Development Corporation (SBDC) is an independent statutory authority established to assist and promote the growth and viability of the small business sector in Western Australia. The level of Government charges, including water and wastewater charges, can be a significant concern for small businesses as it can ultimately affect a business's profitability. The SBDC therefore appreciates the opportunity to comment on the issues being examined as part of the Inquiry.

Service Charges

As noted in your letter, pricing arrangements have changed considerably in the last decade. In this regard, the SBDC supports the move away from service charges based on the gross rental value (GRV) of properties. The SBDC received complaints in the past from small business operators who experienced considerable increases in water or wastewater charges simply as a result of land value increasing, and from small businesses located in central business districts and metropolitan shopping centres which have high GRV but relatively little water or wastewater infrastructure or usage.

Flat rate fixed service charges are also inequitable and result in smaller users subsidising larger users.

Overall, the SBDC believes that the general concept guiding the pricing structure of commercial water and wastewater tariffs should be based on the principle of "pay for use and pay for service".

In relation to the fixed service charges for water and wastewater that apply to commercial premises in Western Australia, setting prices based on the size of the meter and number of outlets respectively does go some way to reflecting a "user pays" approach, more so than does the GRV or flat fee approach that we understand applies in some other States.

However, the SBDC does have some concerns about the validity of the service charges and, in particular, whether they are sufficiently equated to the actual cost of providing the service. Currently there is a significant difference between the service cost levied on a premises that has, for example, one wastewater outlet and a premises that has five outlets, or a premises that has a 20mm water meter compared to one with a 50 mm meter. One area of the small business community in which this approach has had a significant impact is motels and caravan parks that have a large number of wastewater fixtures.

We appreciate there needs to be some difference in pricing to take into account the infrastructure involved. However, we question whether the difference in tariff levels accurately reflects the difference in ongoing servicing costs, and call for service charges to fairly reflect this.

An alternative approach that could be examined is the Brisbane City Council model which is applied by basing the fixed service fee on a percentage of the customer's water consumption charge.

Usage charges

We note the comment made in your letter regarding the recent decision by the New South Wales Independent Pricing and Regulatory Tribunal to retain a single water usage charge for business due to a lack of information on how to set a differential usage charge. Notwithstanding this, the SBDC has received little feedback from small businesses citing dissatisfaction with the current progressive tariff scale approach taken in Western Australia. The SBDC would therefore support retaining a progressive tariff scale for determining water usage prices so that small businesses using less water are not subsidising those businesses using more water.

In terms of the actual tariff levels, it appears that, where smaller volumes of water are used, the tariffs for commercial users are considerably higher than for residential users. We are concerned that this penalises businesses and results in businesses cross-subsidising householders simply because of the perception of affordability.

Small businesses operating from leased premises that do not have individual meters are passed on water and wastewater charges by their landlords according to the portion of their floorspace or some other method determined between the parties. For many of these small business tenants, the amount charged often exceeds the actual amount used. As such, the benefits of any reforms intended to shift urban water and wastewater charges towards a more "user pays" basis could be denied to small business tenants unless appropriate regulatory amendments are made which require that account holders (eg, landlords) passing on charges to third parties (eg, tenants) can only pass on a charge that reflects the amount the third party would actually use. Any infrastructure that is necessary to be installed to ensure this, should be borne by the party passing on the charge.

In conclusion, in keeping with a “pay for service and pay for use” approach, the SBDC would support the water usage charge making up a greater amount of the total water bill, provided the fixed service charge is levied on a fairer basis and reduced accordingly. The overriding concern for small business is that charges are fair and equitable, that sufficient notice is given prior to making any changes to the way prices are determined, and that an appropriate transition to any new charging structure is allowed for.

Thank you again for the opportunity to provide input to the Inquiry. We would appreciate being kept apprised of the outcomes, and would welcome the chance to provide comment on the draft report when it is released in March 2005.

Please do not hesitate to contact Ms Cassandra Bate, A/Director, Policy and Business Liaison at the SBDC on 9220 0260 or at bateca@sbdc.com.au should you require further information.

George Etrelezis
MANAGING DIRECTOR

3 September 2004