

Issues Paper: Inquiry on Country Water and Wastewater Pricing in Western Australia

9 December 2005

Economic Regulation Authority

 WESTERN AUSTRALIA

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Foreword

The State Government of Western Australia has requested the Economic Regulation Authority (Authority) conduct an inquiry into the Water Corporation's country potable water and wastewater (sewerage) prices.

The inquiry is the first independent evaluation of Western Australian country water and wastewater prices and provides an opportunity for Western Australians to have direct input into the process of determining country water and wastewater prices.

The Authority will examine the current approach to country water and wastewater pricing, and the merits of potential alternative approaches, in areas such water usage charges for country town residents and businesses, the water usage threshold for uniform residential charges, and wastewater charges for residents and businesses.

The purpose of this issues paper is to provide background information and outline the issues to be investigated. It is intended to assist stakeholders to understand the nature of the issues under review and to facilitate public comment and debate. Throughout this issues paper boxes appear including questions which highlight matters which may be of particular interest to stakeholders.

Submissions on any matters raised in this issues paper, with particular reference to the questions posed throughout the document, should be submitted no later than **Friday 13 January 2006** to watersubmissions@era.wa.gov.au or in printed and electronic form addressed to:

Inquiry on Country Water and Wastewater Pricing
Economic Regulation Authority
PO Box 8469
Perth Business Centre
PERTH WA 6849

Section 1.3 of this issues paper provides further information regarding the process for making a submission.

It is recognised that public consultation over the Christmas and New Year period may not be entirely convenient, however, interested parties and stakeholders will have a further opportunity to make submissions following the release of the Authority's draft report, which is due on or before 31 January 2006. The Authority will also hold public forums following the publication of the draft report. The final report for the inquiry is scheduled to be delivered to the State Government by 28 April 2006 following which the Government will have 28 days to table the report in Parliament.

Given the importance of this inquiry and its future recommendations to Government regarding country potable water and wastewater prices, I encourage interested parties to consider the terms of reference and the issues discussed in this issues paper and prepare a submission to the inquiry.

LYNDON ROWE
CHAIRMAN

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1 Introduction

On 20 October 2005, the State Government of Western Australia gave written notice to the Economic Regulation Authority (Authority) for it to undertake an inquiry into the Water Corporation's (Corporation) country potable water and wastewater prices.

The inquiry is the first independent evaluation of Western Australian country water and wastewater prices and provides an opportunity for Western Australians to have direct input into the process of determining country water and wastewater prices.

The final report on the earlier inquiry carried out by the Authority on urban water and wastewater pricing, which focussed on Perth, Bunbury and Busselton, was submitted to the State Government on 4 November 2005 and released by the Treasurer on 30 November 2005. However the earlier inquiry did not extend to country areas.

1.1 Terms of Reference

This inquiry has been referred to the Authority under section 32 of the *Economic Regulation Authority Act 2003* (Act), which provides for the State Government to refer to the Authority inquiries on matters related to regulated and non-regulated industries.

The Terms of Reference issued by the Treasurer on 20 October 2005 is provided at Appendix 1.

In accordance with the Terms of Reference, the Authority will examine the current approach to country water and wastewater pricing, and the merits of potential alternative approaches, in the following areas:

- *the appropriate consumption threshold for the application of uniform residential charges;*
 - currently, the threshold is set at 350 kL/year, with customers using in excess of this amount paying a higher price than customers with similar water usage in Perth;
- *the effectiveness and efficiency of the Water Corporation's five town class charges for residential and business customers in country towns and the merits of any alternative charging structure for country towns;*
 - currently towns are allocated to five groups according to the costs of providing the service; in addition there are special charges for some towns, such as those north of the 26th parallel;
 - currently residential charges increase in blocks of water usage and can be more than twice as high as the highest charge in Perth;
 - currently commercial charges are based on two blocks of water usage with the threshold set at 300 kL/year; in comparison, the usage charges for commercial water customers in Perth are based on three blocks of water usage with the thresholds set at 600 kL/year and 1,100,000 kL/year respectively;

- *the effectiveness and efficiency of the service charge structure for businesses and the merits of any alternative charging structure for country towns;*
 - currently charges are based on the size of the meter and are set at the same levels as in Perth;
- *the appropriateness of the residential and vacant land rates for each country sewerage scheme and the maximum rate in the dollar gross rental value wastewater service charge and the merits of an alternative charging structure;*
 - currently charges are based on the rateable value of the property and are set to recover the cost of providing the wastewater service to each country town;
 - currently wastewater charges in country towns are capped while metropolitan wastewater charges are not;
- *the appropriateness of continuing uniform State-wide major fixture and volumetric discharge sewerage charges for business;*
 - the Corporation is phasing-in a new charging structure based on an estimated level of discharge and a service charge based on the number of fixtures;
 - currently the discharge rate and service charges are set at the same levels as in Perth; and
- *the impact proposed pricing structures will have on the Water Corporation's revenue and expenses, as well as payments to, and from, the government.*

In proposing prices and pricing structures, the Authority is required by the Terms of Reference to have regard to:

- *the principles of the Government's uniform pricing policy;*
- *demand management targets; and*
- *other social, economic and environmental policy objectives.*

In undertaking the inquiry, the Authority recognises section 26 of the Act, which requires the Authority to have regard to:

- the need to promote regulatory outcomes that are in the public interest;
- the long-term interests of consumers in relation to the price, quality and reliability of goods and services provided in relevant markets;
- the need to encourage investment in relevant markets;
- the legitimate business interests of investors and service providers in relevant markets;
- the need to promote competitive and fair market conduct;
- the need to prevent abuse of monopoly or market power; and
- the need to promote transparent decision making processes that involve public consultation.

The Authority invites interested parties to consider the Terms of Reference and the issues discussed in this Issues Paper and prepare a submission to the inquiry.

1.2 Review Process

The recommendations of this inquiry will be informed by the following public consultation process.

- This issues paper invites submissions from industry, government, other stakeholder groups and the general community on the matters in the Terms of Reference (submissions are due by Friday 13 January 2006).
- The Authority intends publishing a draft report on or before 31 January 2006 for further public consultation taking written submissions received by 13 January 2006 into consideration.
- The Authority will hold public forums (at locations to be advised) on the findings in the draft report.
- The Authority's Consumer Consultative Committee will be consulted.
- The final report for the inquiry is to be delivered to the Treasurer by 28 April 2006, and under the legislation the Treasurer has 28 days to table the report in Parliament.

In accordance with section 45 of the Act, the Authority will act through the Chairman and member Mr Chris Field in conducting this inquiry.

1.3 How to Make a Submission

Submissions on any matters raised in this issues paper or in response to any matters in the Terms of Reference should be in written form and electronic form (where possible) and addressed to:

Inquiry on Country Water and Wastewater Pricing
Economic Regulation Authority
PO Box 8469
Perth Business Centre
PERTH WA 6849

Email: watersubmissions@era.wa.gov.au
Fax: (08) 9213 1999

Submissions must be received by **Friday 13 January 2006**.

In general, submissions from interested parties will be treated as in the public domain and placed on the Authority's website. Where an interested party wishes to make a confidential submission, it should clearly indicate the parts of the submission that are confidential. For more information about the Authority's submissions policy, see the Authority's website.

Further information regarding this inquiry can be obtained from:

Mr Greg Watkinson
A/Director, References and Research
Economic Regulation Authority
Ph: (08) 9213 1965
E-mail: greg.watkinson@era.wa.gov.au

Media enquiries should be directed to:

Mr Paul Byrne
Byrne & Byrne Corporate Communications
Ph: (08) 9385 9941
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2 Water Usage Threshold for Uniform Residential Water Charges

2.1 Terms of Reference

The Authority is expected to consider and make recommendations on:

- *the appropriate consumption threshold for the application of uniform residential charges.*

2.2 Background

Residential water usage charges in the country are currently set in relation to metropolitan charges for lower levels of water usage, and for higher levels of water usage are set in a way that acknowledges the generally higher costs of supplying country towns with water services (in comparison to the costs of supplying Perth).

For usage up to 350 kL/year, residential water usage charges in the country are the same as metropolitan charges (hence, 350 kL/year is referred to as the “uniform tariff threshold”). The threshold at which a greater degree of cost-reflectivity applies, however, depends on the group to which a country town has been assigned.

- For the majority of country towns (Group A), the charges for usage between 350 kL/year and 450 kL/year are slightly lower than in Perth. The threshold for greater cost reflectivity in Group A is therefore 450 kL/year.
- For towns north of the 26th parallel as well as a selection of other towns (Group B), the threshold for greater cost reflectivity is 650 kL/year, because the charge that applies in Perth for usage between 150 kL/year and 350 kL/year is applied to Group B customers for usage between 350 kL/year and 650 kL/year.

Within each group, country towns are allocated to classes according to the costs of servicing the town. The current assignment of country towns to groups and classes within groups is shown in Appendix 4 and is explained further in section 3.

A further complication is that country pensioners are eligible for a 50 per cent concession off their service charge and water usage up to 400 kL/year if they are in Group A and 600 kL/year if they are in Group B. By comparison metropolitan pensioners are eligible for a 50 per cent concession off their water usage up to 150 kL/year. Other concession card holders, such as seniors, do not receive concessions off their water usage charges (however, they do receive a concession off their service charge although at a lesser rate than pensioners (25 per cent compared to 50 per cent)).

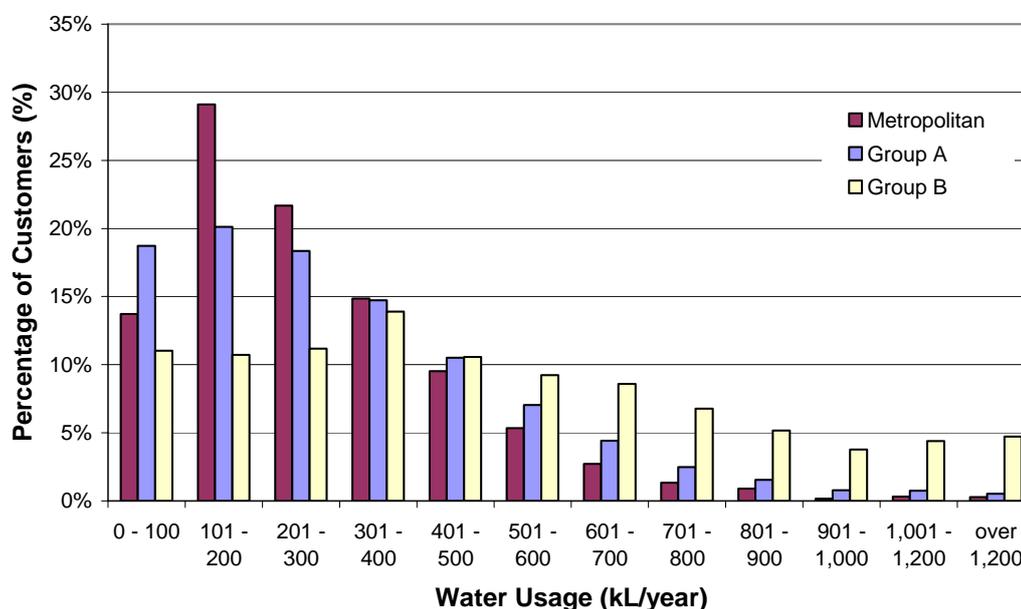
It should be noted that the Corporation receives Community Service Obligation (CSO) payments in return for applying charges in country towns that are not cost-reflective. In 2004/05 CSO payments amounted to \$288 million. This amount compares to dividends paid by the Corporation to the Government of \$292 million in 2004/05.

The uniform tariff threshold was set at 350 kL when the country and metropolitan tariff alignment commenced in 1995. According to the Corporation, the 350 kL threshold was chosen as the uniform tariff threshold because at that time households that used

350 kL/year paid the same amount irrespective of whether they were in Perth or the country (the same payment at 350 kL/year was a consequence of Perth customers receiving a free allowance of 150 kL/year which did not apply to country customers, but country customers paying a lower charge than Perth customers for usage between 150 kL/year and 350 kL/year). Coincidentally, the uniform tariff threshold was close to the average level of water usage for the Corporation's metropolitan residential customers at the time.

In 2003/04, the average residential water usage across all of the Corporation's supply areas was 288 kL/year. Residential water usage in the country is greater on average than in Perth (336 kL/year in the country compared to 275 kL/year in Perth, although Perth usage was reduced by restrictions). Within the country, residential water usage is higher in Group B than in Group A (503 kL/year in Group B compared to 305 kL/year in Group A). The distribution of water usage in the country compared to Perth is shown in Figure 2.1.

Figure 2.1 Water Usage for Metropolitan and Country Residential Customers (2003/04)



Source: Water Corporation

2.3 Comparative Information

South Australia and the Northern Territory face similar issues to those of Western Australia, with single entities providing water and wastewater services across the whole state or territory, covering both metropolitan and country customers.

The South Australian Water Corporation (SA Water) provides water and wastewater services to over 1.4 million customers across the State. The most significant difference between SA Water and the Corporation that is of relevance to this inquiry is the application in South Australia of a uniform price for water within each customer class. In South Australia, therefore, country and metropolitan commercial customers pay the same water charges, whereas in Western Australia charges are only uniform for residential consumers and only up to the threshold of 350 kL/year. The South Australia Government funds its uniform pricing policy by making CSO payments to SA Water.

In the Northern Territory, Power and Water Corporation (Power and Water) provides electricity, water and sewerage services to over 70,000 customers across the Territory. Territory-wide uniform tariffs for water and sewerage are in place, for which Power and Water receives a CSO from the Territory Government (around \$5 million in 2004/05).

In other jurisdictions, water and wastewater industries are decentralised, with separate service providers for urban and regional centres and with each charging different amounts for their services. For example, Victoria has three metropolitan (Melbourne) retail businesses and 15 regional urban water authorities, which provide water distribution and sewerage services, and five rural water authorities, which provide water for irrigation.

2.4 Analysis

As part of the Inquiry on Urban Water and Wastewater Pricing, the Authority recommended the introduction of a residential usage charge for metropolitan customers with one step at 550 kL/year (with the usage charging increasing from \$0.82/kL to \$1.20/kL at that step). The proposed tariff step is based on the estimated average water usage of a six-member household (in the absence of restrictions). Further information about this other inquiry, including the final report, is available at the Authority's website (www.era.wa.gov.au).

If the Government accepts the Authority's recommendation of a 550 kL/year step for metropolitan customers, one option for country water pricing would be to extend the uniform tariff threshold to 550 kL/year, so that most households would be treated consistently irrespective of where they live in the State. Such an extension to the threshold would have an impact on the payments of approximately 62,000 households with total water usage above 350 kL/year. Some users would have increased charges, others reductions.

The option of increasing the uniform tariff threshold to 550 kL/year would result in a reduction in charges for customers in Group A and an increase in charges for customers in Group B (see section 3 for the charges in each group).

Even with the increase to 550 kL/year, 17 per cent of country households would pay charges that are above the uniform tariff threshold.

There are a number of other options, such as:

- extending the uniform tariff threshold to 450 kL/year. This would result in an increase in charges for customers in Group A compared to their current charges. However, on the basis of the recommendation put by the Authority as part of the Inquiry on Urban Water and Wastewater Pricing (for a charge of \$0.82/kL to apply up to 550 kL/year), customers in Group A would see a reduction in charges, while customers in Group B would face an increase in their charges; and
- applying the same tariffs throughout the State regardless of water usage, which is the approach used by SA Water.

Of course, the option also exists of retaining the threshold at 350 kL/year.

In general, there is a trade-off between treating households consistently in terms of water prices paid irrespective of where they are in the State and setting tariffs that are cost-reflective. This trade-off will be considered in detail as part of this inquiry.

Issues

- 1** Are you satisfied with the current application of uniform tariffs to all residential customers throughout the State who use up to 350 kL/year? If not, at what level of water usage would you prefer to see the uniform tariff policy apply?
- 2** Do you think that the current approach of providing different thresholds to different customer groups for the purpose of charging prices that are more cost-reflective is appropriate? If not, what approach would you prefer to see applied?
- 3** Are you satisfied with the current charging arrangements for pensioners, who receive a 50 per cent concession on water usage up to 150 kL/year in Perth, 400 kL/year in Group A and 600 kL/year in Group B? If not, what alternatives would you prefer?

3 Country Town Water Usage Charges

3.1 Terms of Reference

The Authority is expected to consider and make recommendations on:

- *the effectiveness and efficiency of the Water Corporation's five town class charges for residential and business customers in country towns and the merits of any alternative charging structure for country towns.*

3.2 Current Water Usage Charges

3.2.1 Residential Water Usage Charges

As explained in section 2, residential charges in the country are currently the same as metropolitan charges for water usage up to 350 kL/year. Water usage charges then vary on an inclining scale depending on the group and class to which the specific town has been allocated.

According to the Corporation, the five class structure was established in 1995/96 on the basis that it was “reasonable” to expect customers at some level of water usage (i.e. when water usage becomes more discretionary) to pay a price that recognises the higher costs associated with servicing country towns. Five classes were chosen following a review by the Corporation that indicated that such a grouping balanced administrative simplicity with cost-reflectivity.

Table 3.1 provides the tariffs for Group A and Table 3.2 provides examples of the towns within each class of Group A.

Table 3.1 Residential Water Usage Charges for Perth and Country Town Classes in Group A (2005/06)

Usage (kL/year)	Perth (c/kL)	Class 1 (c/kL)	Class 2 (c/kL)	Class 3 (c/kL)	Class 4 (c/kL)	Class 5 (c/kL)
1 – 150 kL	42.5	42.5	42.5	42.5	42.5	42.5
151 – 350 kL	68.9	68.9	68.9	68.9	68.9	68.9
351 – 450 kL	93.0	85.1	87.6	87.6	87.6	87.6
451 – 550 kL	93.0	85.1	113.1	124.3	135.7	139.5
551 – 750 kL	122.6	122.6	128.0	147.4	163.0	178.4
751 – 950 kL	122.6	156.0	211.3	235.7	268.2	300.7
951 – 1150 kL	153.3	156.0	211.3	235.7	268.2	300.7
1151 – 1550 kL	153.3	224.1	308.8	357.4	487.6	601.1
1551 – 1950 kL	153.3	258.3	381.9	471.3	585.1	698.8
Over 1950 kL	153.3	300.2	487.6	568.8	682.4	780.0

Source: Water Corporation

Table 3.2 Examples of Country Towns within each Class of Group A*

Class	Country Town
1	Albany, Cervantes, Esperance, Geraldton, Jurien, Kalbarri, Mandurah, Northam, Pinjarra, Wundowie
2	Boddington, Dunsborough, Gingin, Kellerberrin, Lancelin, Manjimup, Narrogin, Pemberton, Williams, York
3	Augusta, Brookton, Denmark, Hopetoun, Kalgoorlie-Boulder, Mt Barker, Preston Beach, Quairading, Seabird, Wickepin
4	Corrigin, Cranbrook, Gnowangerup, Hyden, Kulin, Lake Grace, Latham, New Norcia, Norseman, Walpole
5	Beacon, Borden, Coomberdale, Dumbleyung, Grass Patch, Pingrup, Ravensthorpe, Salmon Gums, Wellstead, Yuna

* A complete list of country towns within each class in Group A is provided in Appendix 3.

Source: Water Corporation

Special (lower) tariffs for usage between 351–550 kL and 551–650 kL apply to residential properties in Group B (see Table 3.3 for the tariffs and Table 3.4 for examples of towns within each class). The Corporation has informed the Authority that the basis for treating these towns differently is their greater water requirements due to the lower rainfall, higher temperatures and generally harsher weather conditions experienced by these towns (as demonstrated by historical meteorological data).

Table 3.3 Residential Water Usage Charges for Perth and Country Town Classes in Group B (2005/06)

Usage (kL/year)	Perth (c/kL)	Class 1 (c/kL)	Class 2 (c/kL)	Class 3 (c/kL)	Class 4 (c/kL)	Class 5 (c/kL)
1 – 150 kL	42.5	42.5	42.5	42.5	42.5	42.5
151 – 350 kL	68.9	68.9	68.9	68.9	68.9	68.9
351 – 450 kL (comparison with undiscounted class)	93.0	68.9 (-16.2)	68.9 (-18.7)	68.9 (-18.7)	68.9 (-18.7)	68.9 (-18.7)
451 – 550 kL (comparison with undiscounted class)	93.0	68.9 (-16.2)	68.9 (-44.2)	68.9 (-55.4)	68.9 (-66.8)	68.9 (-70.6)
551 – 650 kL (comparison with undiscounted class)	122.6	83.2 (-39.4)	83.2 (-44.8)	83.2 (-64.2)	83.2 (-79.8)	83.2 (-95.2)
651 – 750 kL	122.6	122.6	128.0	147.4	163	178.4
751 – 950 kL	122.6	156.0	211.3	235.7	268.2	300.7
951 – 1150 kL	153.3	156.0	211.3	235.7	268.2	300.7
1151 – 1550 kL	153.3	224.1	308.8	357.4	487.6	601.1
1551 – 1950 kL	153.3	258.3	381.9	471.3	585.1	698.8
Over 1950 kL	153.3	300.2	487.6	568.8	682.4	780.0

Source: Water Corporation

Table 3.4 Examples of Country Towns within each Class within Group B*

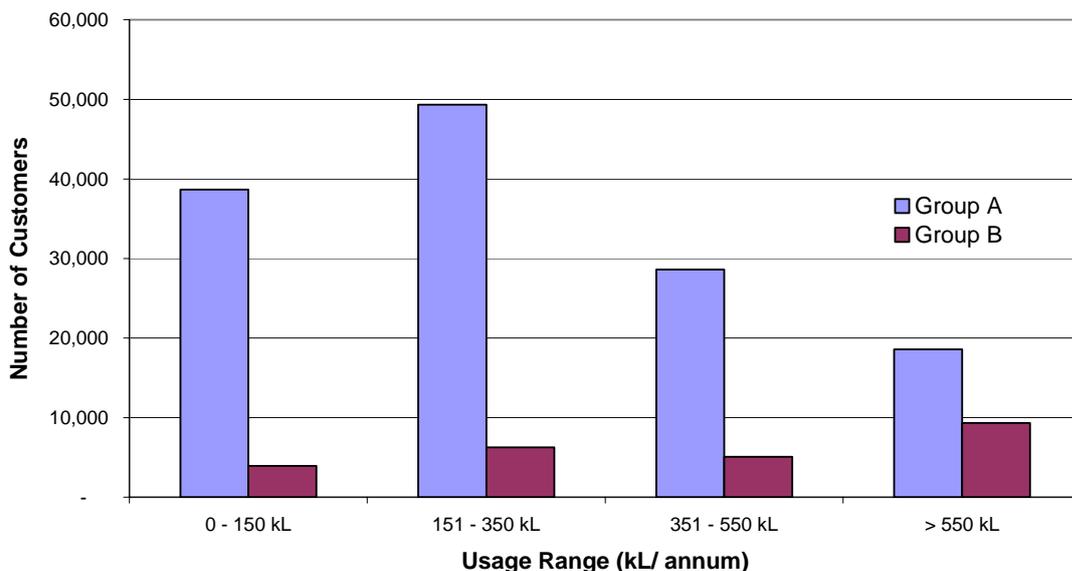
Class	Country Towns
1	Broome, Dampier, Kununurra, Port Hedland
2	Carnarvon, Derby, Exmouth, Fitzroy Crossing, Karratha, Meekatharra, Mount Magnet, Wiluna
3	Cue, Gascoyne, Halls Creek, Laverton, Leonora, Wyndham, Yalgoo
4	Lake Argyle, Onslow, Sandstone
5	Menzies, Wittenoom

* A complete list of country towns within each class in Group B is provided in Appendix 3.

Source: Water Corporation

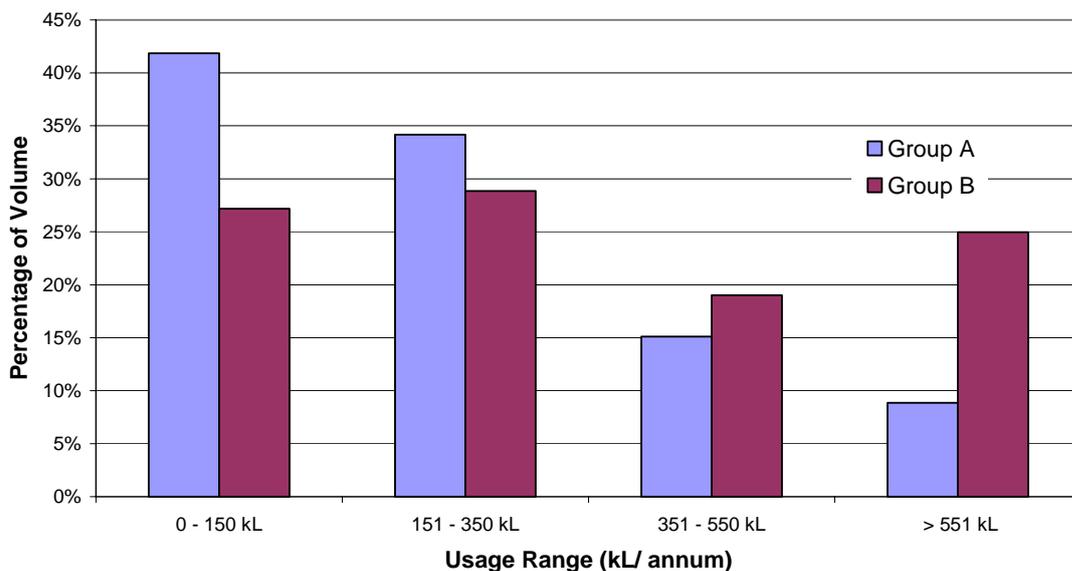
Figure 3.1 shows that most country customers are in Group A while Figure 3.2 shows that Group B customers are more likely to use larger amounts of water and pay a higher usage charge than Group A customers.

Figure 3.1 Number of Country Water Customers with Total Water Usage Within Each Usage Range (2003/04)



Source: Water Corporation

Figure 3.2 Percentage of Water Volume Within Each Usage Range (2003/04)



Source: Water Corporation

4 Do you think that the current approach to setting country residential water usage charges above the uniform tariff threshold is appropriate? If not, how should those water usage charges be set?

3.2.2 Commercial Water Usage Charges

For the purposes of setting commercial water charges, the Corporation allocates country towns to classes in the same manner as for residential water charges. As the uniform tariff policy does not apply to commercial water charges, commercial customers in country towns pay higher water usage charges than in Perth. In comparison to country residential customers, country commercial customers pay higher charges at lower levels of water usage and lower charges at higher levels of water usage.

The country commercial water charge for usage up to 300 kL/year was initially set at the same rate as the country residential charges for usage between 450 kL/year and 550 kL/year while the commercial charge for usage above 300 kL/year was initially set at the same rate as the residential charge for usage between 750 kL/year and 1150 kL/year. However, this alignment is now only approximate due to the application of different annual increases to residential and commercial charges.

Table 3.5 Commercial Water Usage Charges for Perth and Country Town Classes (2005/06)

Usage (kL/year)	Perth (c/kL)	Class 1 (c/kL)	Class 2 (c/kL)	Class 3 (c/kL)	Class 4 (c/kL)	Class 5 (c/kL)
0 – 300 kL	72.6	84.7	112.5	123.6	135.1	138.8
301 – 600 kL	72.6	148.0	200.6	223.6	254.6	285.3
601 – 1,100,000 kL	81.1	148.0	200.6	223.6	254.6	285.3
Over 1,100,000 kL	79.0	148.0	200.6	223.6	254.6	285.3

Source: Water Corporation

5 Do you think that the current approach to setting country commercial water usage charges is appropriate? If not, how should those water usage charges be set?

3.2.3 Allocation of Country Towns to Classes

As indicated above, country towns are allocated to classes based on the costs of servicing each country town, which are specified in the By-laws. The allocation of towns to classes is reviewed each year by the Corporation and the allocations are based on costs per kilolitre averaged over the past three years. The Corporation considers operating costs (including allocated overheads) and total costs (including depreciation and a rate of return) when determining the allocations. According to the By-laws, the allocations are on the basis of the costs as shown in Table 3.6.

Table 3.6 Basis for Allocating Country Towns to Classes (2005/06)*

Class	3 year average operating cost (including allocated overheads) (\$/kL)	3 year average total cost (including depreciation and a return on capital) (\$/kL)
Class 1	\$0 - \$1.00	\$0 - \$2.00
Class 2	\$1.00 - \$1.50	\$2.00 - \$3.00
Class 3	\$1.50 - \$2.50	\$3.00 - \$5.00
Class 4	\$2.50 - \$5.00	\$5.00 - \$10.00
Class 5	Over \$5.00	Over \$10.00

* Note: The costs referred to in this table are specified in the By-laws and are not indexed for inflation.

Source: Water Corporation

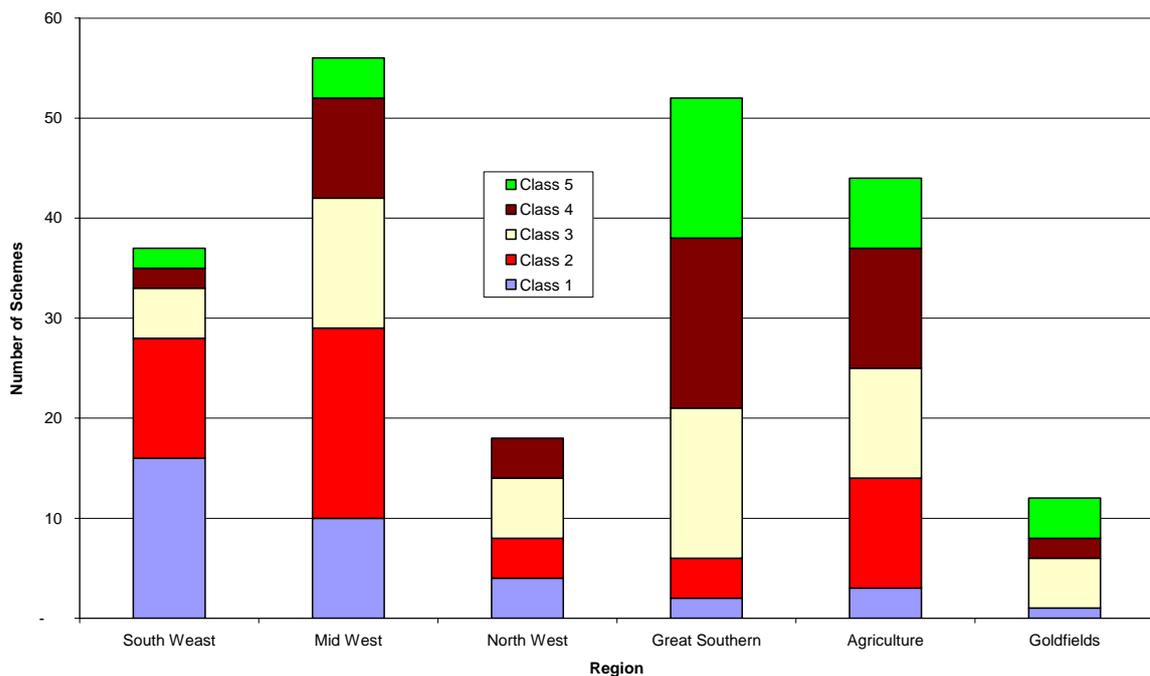
The Corporation has advised that allowance is occasionally made for a town's specific circumstances including:

- the impact of an exceptional year on the three year average;
- towns whose average cost alternates frequently between classes; and/or
- regional advice regarding the future requirements for a scheme.

At the allocation review for 2005/06, the Corporation reallocated 40 towns to higher classes (out of a total of 281 schemes). One town was reallocated to a lower class.

In allocating towns to classes, greater consideration could be given to matters such as expected future costs associated with servicing a town and the aesthetic water quality in a town in relation to the quality in other towns (for example, aesthetic water quality is better in Kalgoorlie-Boulder than Esperance).

It is interesting to note that the classes are spread throughout the regions of Western Australia, which means that there does not appear to be justification for setting charges on a geographical basis (Figure 3.3).

Figure 3.3 Distribution of Classes Within Each Region (2005/06)

Source: Water Corporation

The Authority will be considering the allocations of towns to classes in more detail to consider whether a lesser or greater number of classes is appropriate and the method the Corporation uses to allocate towns to classes.

6 Does the current classification of country towns into classes appear appropriate? If not, how should country towns be allocated to classes for the purpose of setting water usage charges?

3.3 Methodological Issues to Guide Country Water Pricing

Pricing water for country towns involves a number of important issues. From an economic efficiency perspective, prices need to encourage efficient use of the infrastructure delivering the water. They also need to encourage efficiency in the use of the water resource. From an equity perspective they need to be reflective of underlying social equity issues in terms of the prices consumers in different locations should be asked to pay for water.

To encourage economic efficiency it is important to make the prices charged reflect the costs of delivery: consumers need to be aware of the costs of the services and of the cost consequences of consuming more rather than less water. The economic concepts that can be considered when formulating water pricing structures in country towns are explained further below:

- *Cost recovery pricing* - Customers in country towns would be charged an amount that at least recovered the direct costs that the Corporation incurred in providing the service specifically to that town. Direct costs relate to costs involved in

securing the water source, water treatment, pumping, meter reading, billing and maintenance of the network). By setting prices to cover these costs, country consumers would be covering all of the costs that could be avoided by the Corporation if it were to cease providing the service. This would mean that the cost to society of providing for their non-discretionary water use is covered by the amount paid by them.

Such prices would not cover all costs as the Corporation incurs corporate overheads, depreciation and needs to make a reasonable “profit” on its investment in infrastructure. Combined these are overhead costs that need to be recovered but not necessarily from any particular country town or customer class.

- *Long run marginal cost pricing* – Customers could be charged for each additional unit of water at a price that is related to the “long run marginal cost” (LRMC) of service provision. The long run marginal cost is calculated to reflect the cost of supplying the additional unit of water. It is a forward looking cost in that it reflects the cost of supplying an additional unit of water through new source development and/or demand management programs.

There are a range of practical issues to be resolved in applying these concepts to country water pricing:

- One purpose of relating prices to costs is to provide an appropriate signal to consumers. If prices are based on grouping towns into classes where there are significant differences in costs between country towns within the same class, then the effectiveness of this approach may be reduced. Similarly, if the uniform tariff threshold were to increase, say to 550 kL/year, then the price signal would apply to only 13 per cent of water usage compared to 29 per cent at present. If the charges only apply to small volumes, the cost of maintaining the differential charging structure may be greater than the benefits for more efficient water use;
- To ensure that LRMC pricing provides the desired incentive with respect to additional water but does not cause an over- or under-recovery of costs, either the fixed charge or the block tariff may need to be adjusted accordingly (it should be noted that LRMC pricing need not mean that there is one usage charge set at LRMC; rather, when a consumer is making a decision to use additional amounts of water the price of that additional water should be related to LRMC); and
- Estimates of LRMC are subject to uncertainty.

The Government, through its uniform pricing policy, has chosen to not have all customers meet the direct costs of servicing them and also to not have all customers pay a usage charge that reflects LRMC. As part of this inquiry the Authority will consider whether there is a more efficient way of meeting the objective underlying the uniform pricing policy.

It should also be noted that efficiency for large customers is already covered by the Corporation’s Major Consumer Policy, which applies to mining and industrial companies that use more than 50 kL/day, whereby charges are based on the augmentation costs at the specific location.

7 What methodological issues need to be considered when setting usage charges that apply above the uniform tariff threshold for country residential water customers and for usage charges that apply for country commercial water customers?

3.4 Cross-Subsidisation

Consumers are cross-subsidised when they do not at least pay the direct costs associated with servicing them. Likewise towns are cross-subsidised when the total payments from a town do not cover the direct costs associated with servicing the town. It should be noted that some customers may not be cross-subsidised even though the town as a whole is being cross-subsidised, because the direct costs of a specific customer may be low.

The Authority's preliminary investigations have indicated that 188 of the 281 towns are on average paying less than the direct costs of service provision. The cross-subsidised towns, however, account for relatively small amounts of water usage. The number of connections in towns that are being cross-subsidised totals around 36,000, thus accounting for less than five per cent of the Corporation's 810,000 connections and just over seven per cent of total water delivered. Table 3.7 provides an estimate of the number of schemes in each region of the State that are cross-subsidised.

Table 3.7 Extent of Cross-Subsidisation of the Corporation's Water Schemes (2003/04)

Region	Total Number of Schemes	Customer Revenue (\$ million)	Directly incurred operating expenditure (\$ million)	Number of cross-subsidised schemes	Total operating expenditure (including depreciation and allocated overheads) (\$ million)
Perth	1	230.2	52.2	0	165.8
South West	40	24.3	21.6	29	30.1
North West	21	29.7	22.5	9	30.2
Mid West	66	20.9	16.4	38	23.9
Great Southern	59	13.9	20.8	49	38.5
Agriculture	79	13.9	18.0	52	32.8
Goldfields	15	22.2	16.3	11	32.5
Total	281	355.3	167.8	188	353.7

Source: Water Corporation data with ERA analysis

Table 3.7 also shows that the Corporation's customer revenue from providing water services (both metropolitan and country) approximately equals the Corporation's total operating costs associated with providing water services (including direct operating costs, depreciation and allocated corporate overheads).

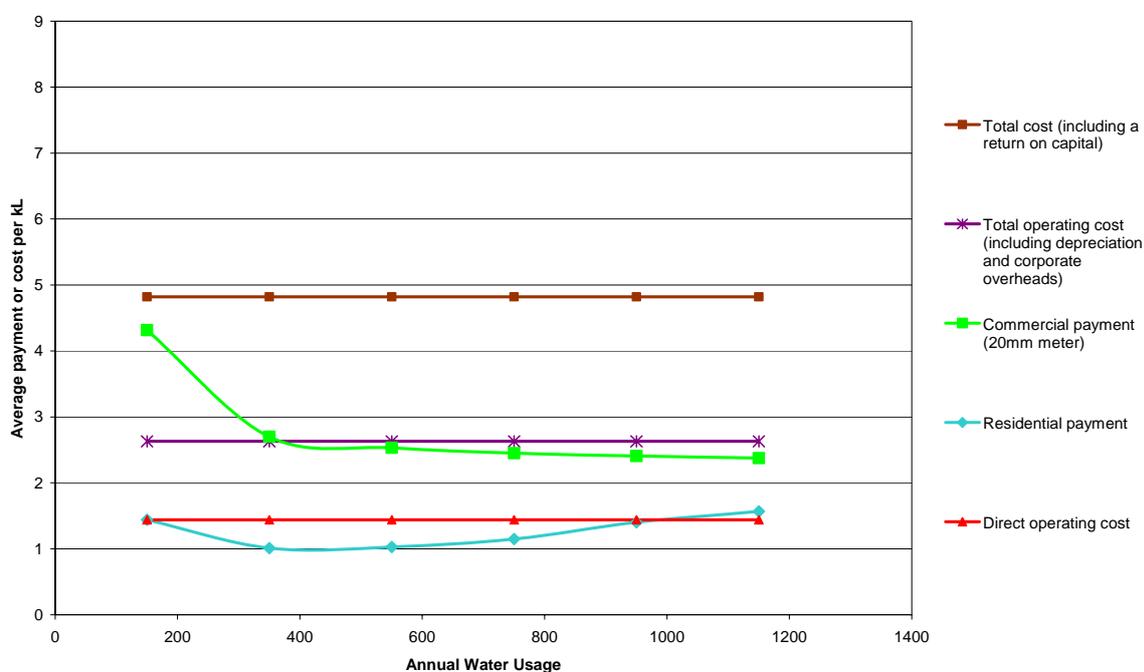
The analysis of cross-subsidisation within each scheme is limited by the absence of cost data at a commercial and residential level, although cost data is available at a service level (water separately from wastewater). The following figures compare, for Kalgoorlie-

Boulder and Esperance water services respectively (as examples), the average water charges calculated on a per kilolitre basis with various measures of cost. The figures include direct costs, as defined above, total operating costs, which include the allocation of corporate overheads and depreciation, and total costs, which include a rate of return on the Corporation’s definition of its asset value for each scheme.

Figure 3.4 shows, based on current usage charges, residential customers in Kalgoorlie-Boulder generally do not pay the average direct operating costs associated with servicing the scheme. Commercial customers with a 15 or 20mm meter in Kalgoorlie-Boulder (approximately 80 per cent of commercial customers) are paying an amount that is more than the direct cost and close to the total operating costs associated with servicing the scheme.

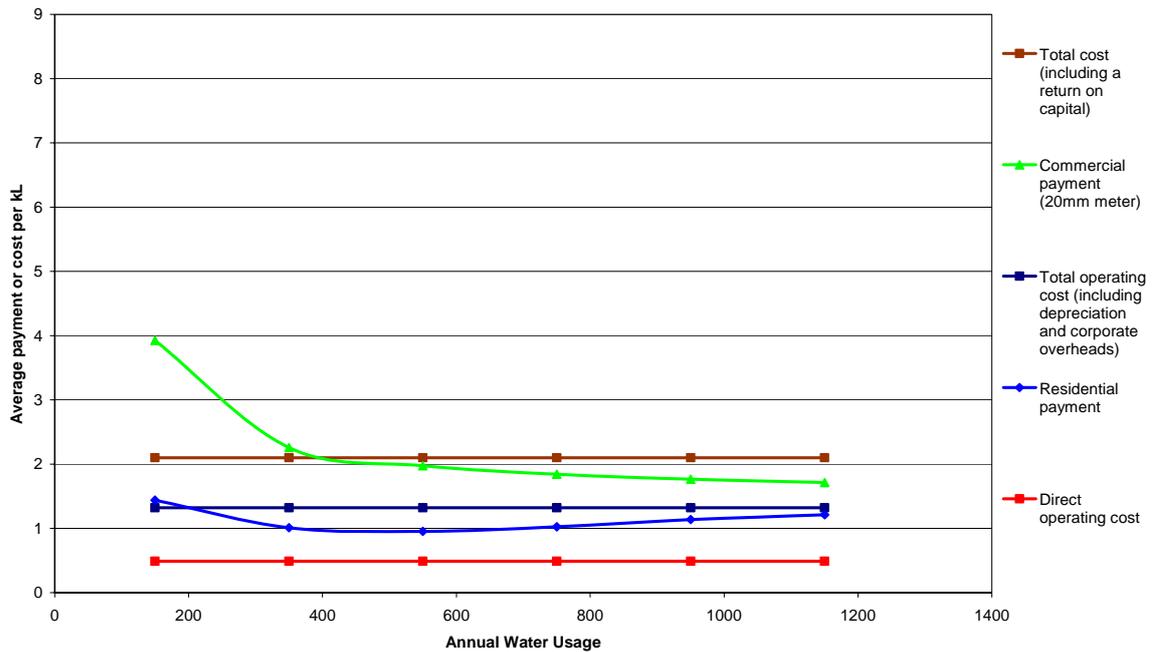
Neither residential customers nor commercial customers (with a 15 or 20mm meter) in Kalgoorlie-Boulder are paying an amount that is near the Corporation’s estimate of its total cost inclusive of a rate of return.

Figure 3.4 Kalgoorlie-Boulder Average Water Payment per Kilolitre versus Costs



Source: Water Corporation data with ERA analysis

Figure 3.5 shows that residential customers at Esperance are paying more than the direct costs associated with operating the scheme at all levels of water usage and commercial customers (with a 15 or 20mm meter) are paying close to the total cost of operating the scheme (which includes a return on capital).

Figure 3.5 Esperance Average Water Payment per Kiloitre versus Costs

Source: Water Corporation data with ERA analysis

- 8 Is there a better way of identifying the extent that CSOs are paid for the purpose of funding cross-subsidised customers?
- 9 What principles should guide the payment of CSOs?

4 Country Commercial Water Service Charges

4.1 Terms of Reference

The Authority is expected to consider and 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.

4.2 Background

The Corporation's commercial properties in metropolitan and country areas are subject to a water service charge and to water usage charges. Country commercial service charges are set equal to metropolitan service charges. The water service charge is based on the size of the water meter to the property, as shown in Table 4.1.

Table 4.1 Water Service Charges for the Corporation's Commercial Customers (2005/06)

Meter Size	Charge 2005/06
15mm & 20mm meter	\$461.90
25mm meter	\$721.70
30mm meter	\$1,039.30
35mm, 38mm & 40mm meter	\$1,848.00
50mm meter	\$2,887.00
70mm, 75mm & 80mm meter	\$7,390.00
100mm meter	\$11,548.00
140mm & 150mm meter	\$25,982.00
Strata titled units sharing a meter	\$152.30

Source: Water Corporation

Country commercial water service charges have been aligned with the metropolitan charges (previously the country charges were based on property value). The alignment process commenced in 1995/96 and was completed in 2001/02.

4.3 Analysis

There is a trade-off between setting fixed charges in relation to the fixed costs (metering, billing and network maintenance) associated with servicing a customer in a particular town and the administrative simplicity of setting charges in a uniform manner across the State.

As indicated above, there are significant differences in the costs of servicing country towns, which are influenced by factors such as proximity to the water source, the size of

the town (influencing economies of scale), and the need for peak capacity as a result of the variance in seasonal demand, particularly for tourist towns. These factors would suggest that some differentiation in fixed charges would be warranted if a consistent approach to charging is applied across the Corporation's customer groups. However, the administrative cost associated with this may not warrant the differentiation. This matter will be considered in detail as part of the inquiry.

10 Do you think that the way the water service charges are set for country commercial customers is appropriate? If not, how should these charges be set?

5 Country Residential and Vacant Land Wastewater Service Charges

5.1 Terms of Reference

The Authority is expected to consider and make recommendations on:

- *the appropriateness of the residential and vacant land rates for each country sewerage scheme and the maximum rate in the dollar gross rental value wastewater service charge and the merits of an alternative charging structure.*

5.2 Background

The Corporation operates 79 per cent of the licensed wastewater schemes in Western Australia.

The Corporation's wastewater charges for country residential properties are based on the rateable value of the property. The rateable value is derived from the Gross Rental Value (GRV), which is the estimated gross annual rent, determined by the Office of the Valuer General for the property.

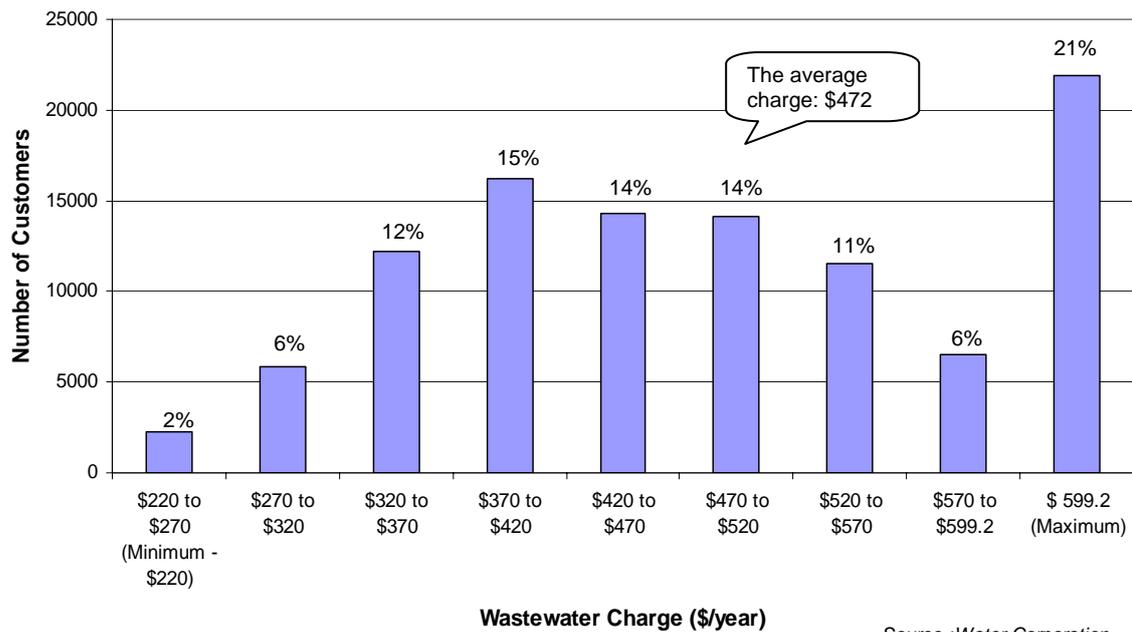
The tariffs are set independently for each country town wastewater scheme, with the objective of recovering the costs of providing wastewater services to the specific town or area (the classes used for water pricing are not used for wastewater pricing). The cost recovery is achieved by varying the charge, which is a rate in the dollar of GRV (rates vary from \$0.05 to \$0.12 per dollar of GRV).

The Corporation has advised that it has been possible for local communities to be charged a higher amount than they otherwise would because of their preference for a particular type of service. For example, Albany residents agreed to a higher wastewater charge because they preferred the more costly option of using treated wastewater to irrigate tree lots rather than disposal through ocean outfall.

A minimum and maximum wastewater charge applies to country residential customers. The minimum country residential wastewater charge in 2005/06 is \$241.30 per residential unit and the maximum charge is \$612.40. By comparison, metropolitan residential wastewater customers have the same minimum charge but no maximum charge.

The maximum charge was introduced in 2000/01. According to the Corporation, part of the justification for the cap was to limit the payment increases to country towns with new infill sewerage projects. The number of country customers subject to the maximum charge amounts to approximately 21 per cent of country residential customers (2004/05).

The distribution of country residential wastewater charges in 2004/05 is shown in Figure 5.1.

Figure 5.1 Distribution of Country Residential Wastewater Charges (2004/05)

Wastewater charges for vacant land held for residential purposes are also based on GRV and set in a way to recover costs. Vacant land is subject to the same maximum charge; however the minimum charge is lower (\$159.90 in 2005/06, compared to \$241.30 for residential properties).

5.3 Analysis

In the final report of the Inquiry on Urban Water and Wastewater Pricing, the Authority considered a range of options for residential wastewater charging. The options included the approaches used in other States, such as a uniform flat charge and a charging approach based on estimated discharge into the sewer. After considering the impacts on customer groups, the Authority recommended the removal of the link between property values and wastewater charges. The Authority was concerned that basing charges on property values was not cost reflective (on an individual household basis) or transparent and result in a large number of complaints to the Corporation when properties are re-valued. The Authority also noted that GRV-based charging is an imperfect way of achieving a redistribution objective because a proportion of households on below average incomes (25 per cent) live in above average valued properties.

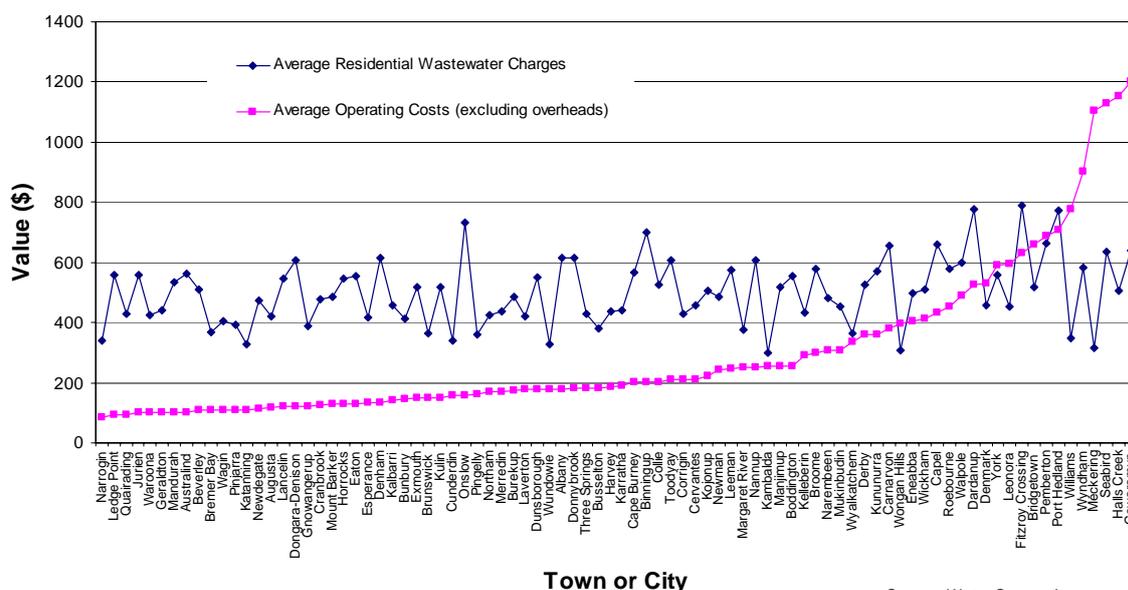
To protect low income families from the payment increases that would be associated with moving all low income households onto a uniform flat charge, the Authority recommended that four charging blocks (with higher charges for higher blocks) be introduced. The Authority also recommended that the reform be phased-in over four years to limit the annual payment increases that would be required.

However, the Government did not accept this recommendation because it was concerned about the impacts that the proposal would have on low-income households. The Authority will therefore not be considering this option for country residential wastewater charges.

The Authority's analysis of country residential wastewater charging will focus on scrutinising the Corporation's approach to setting charges for each country town. The

Authority is particularly interested in the relationship between the costs (both current and future) of servicing country towns and the customer revenue currently received from each town. Although information is not readily available on the costs of servicing residential customers alone, the Corporation has provided the Authority with information that shows the relationship between average costs per connection (excluding overheads) and customer revenue per connection (both residential and commercial) for each town, which is shown in Figure 5.2. The data has been averaged over three years to remove the effects of annual variations in costs. The figure shows that average wastewater charges per connection can vary significantly between towns with similar costs.

Figure 5.2 Average Residential Wastewater Charges Per Connection and Average Operating Costs Per Connection (Excluding Overheads; Averaged over 2001/02, 2002/03 and 2004/05)*



Source: Water Corporation

Note: Cost data was not readily available for 2003/04.

The Corporation has advised that its most expensive wastewater schemes on a per capita basis are for small towns located in the South West and Great Southern Regions close to the coast in environmentally sensitive areas (e.g. Walpole).

It is interesting to note that the Corporation’s approach to country residential wastewater charging, where charges are determined for each town, is different to its approach to country residential water charging, where charges are determined for town classes.

A further matter for consideration is the cap on charges for country customers, which does not exist for metropolitan customers.

- 11 Are you satisfied with the current charging arrangements for country residential wastewater services? If not, what charging arrangement would be more appropriate?
- 12 Should country residential wastewater charges be subject to a cap while metropolitan charges are not? If country residential wastewater charges are to be capped, at what level should this cap be set?

6 Country Commercial Wastewater Charges

6.1 Terms of Reference

The Authority is expected to consider and make recommendations on:

- the appropriateness of continuing uniform Statewide major fixture and volumetric discharge sewerage charges for business.

6.2 Background

On 1 July 2003 the Corporation introduced a new method of charging commercial properties for wastewater. The new tariff consists of a service charge, based on the number of major sewerage fixtures (e.g. toilets and urinals) and a usage charge, based on the assessed volume of wastewater discharged into the wastewater system. The charges are as shown in Table 6.1.

Table 6.1 Charges for Country Commercial Wastewater Customers

Category	Charge 2005/06
Service Charge (\$/year)*	
First Fixture	\$516.00
Second Fixture	\$220.80
Third Fixture	\$294.90
Over 3 Fixtures (each)	\$320.70
Strata titled units sharing facilities	\$320.70
Usage Charge (\$/kL)	
0 – 200 kL/year	\$0
Above 200 kL/year	\$1.931

* Note: Fixture charges are cumulative.

Source: Water Corporation

The new charges are being phased-in, in most cases over six years, and replace a system based on property values. Once completely phased-in, all of the Corporation's commercial wastewater customers throughout the State will pay the same wastewater charges.

6.3 Analysis

In the final report of the Inquiry on Urban Water and Wastewater Pricing, the Authority considered that prices for wastewater services for metropolitan commercial customers should continue to be determined by a combination of fixed and volumetric charges. The

Authority considered that volumetric charges should be set to reflect the estimated LRMC of providing wastewater services and fixed charges should be set at levels necessary to ensure that revenue requirements are met after taking into account revenues from volumetric charges.

In coming to its recommendation, the Authority considered the alternative commercial wastewater charging in place in Canberra and Sydney, where the estimate of discharge is based on the number of fixtures rather than water usage.

As part of this inquiry the Authority will consider whether the Corporation's approach is sufficiently cost-reflective on a locational basis and whether the merits of greater cost-reflectivity are outweighed by the costs of administrative complexity.

13 Do you consider that the Corporation's commercial wastewater charges should be the same across the State? If not, how should these charges be set for country towns?

7 Impact on Water Corporation and Payments to Government

7.1 Terms of Reference

The Authority is expected to consider and make recommendations on:

- the impact proposed pricing structures will have on the Water Corporation's revenue and expenses, as well as payments to, and from, the government.

7.2 Analysis

As part of the Inquiry on Urban Water and Wastewater Pricing, the Authority developed a financial model to investigate alternative tariff structures and the financial impacts of any changes to tariffs on the Corporation's revenue and expenses as well as financial flows between the Corporation and Government. This financial modelling will be extended to the Corporation's country water and wastewater operations as part of this inquiry.

The financial flows that are particularly relevant to this inquiry are indicated in Table 7.1.

Table 7.1 Selected Revenue and Expenditure Flows for the Corporation (2004/05)

Revenue/Expenditure	\$ million
Revenue from country customers	433
Total operating expenditure on country operations	267
CSO payments from Government for the purpose of funding country operations (including concessions)	218
Dividends paid to Government from the Corporation's total country and metropolitan operations	312

Source: Water Corporation data with ERA analysis

8 Summary of Issues

The Authority invites submissions from interested parties on the matters raised in this issues paper or relevant to the Terms of Reference. A summary of the issues raised in this issue paper is presented below.

- 1 Are you satisfied with the current application of uniform tariffs to all residential customers throughout the State who use up to 350 kL/year? If not, at what level of water usage would you prefer to see the uniform tariff policy apply?
- 2 Do you think that the current approach of providing different thresholds to different customer groups for the purpose of charging prices that are more cost-reflective is appropriate? If not, what approach would you prefer to see applied?
- 3 Are you satisfied with the current charging arrangements for pensioners, who receive a 50 per cent concession on water usage up to 150 kL/year in Perth, 400 kL/year in Group A and 600 kL/year in Group B? If not, what alternatives would you prefer?
- 4 Do you think that the current approach to setting country residential water usage charges above the uniform tariff threshold is appropriate? If not, how should those water usage charges be set?
- 5 Do you think that the current approach to setting country commercial water usage charges is appropriate? If not, how should those water usage charges be set?
- 6 Does the current classification of country towns into classes appear appropriate? If not, how should country towns be allocated to classes for the purpose of setting water usage charges?
- 7 What methodological issues need to be considered when setting usage charges that apply above the uniform tariff threshold for country residential water customers and for usage charges that apply for country commercial water customers?
- 8 Is there a better way of identifying the extent that CSOs are paid for the purpose of funding cross-subsidised customers?
- 9 What principles should guide the payment of CSOs?
- 10 Do you think that the way the water service charges are set for country commercial customers is appropriate? If not, how should these charges be set?
- 11 Are you satisfied with the current charging arrangements for country residential wastewater services? If not, what charging arrangement would be more appropriate?
- 12 Should country residential wastewater charges be subject to a cap while metropolitan charges are not? If country residential wastewater charges are to be capped, at what level should this cap be set?
- 13 Do you consider that the Corporation's commercial wastewater charges should be the same across the State? If not, how should these charges be set for country towns?

Appendix 1: Terms of Reference

INQUIRY ON COUNTRY WATER AND WASTEWATER PRICING IN WESTERN AUSTRALIA

TERMS OF REFERENCE

I, ERIC RIPPER, Treasurer, pursuant to section 32(1) of the *Economic Regulation Authority Act 2003* (the ERA Act), request that the Economic Regulation Authority (the Authority) undertake an inquiry into the Water Corporation's country potable water and wastewater prices. In doing so the Authority is expected to consider and make recommendations on:

- the appropriate consumption threshold for the application of uniform residential charges;
- the effectiveness and efficiency of the Water Corporation's five town class charges for residential and business customers in country towns and the merits of any alternative charging structure for country towns;
- the effectiveness and efficiency of the service charge structure for businesses and the merits of any alternative charging structure for country towns;
- the appropriateness of the residential and vacant land rates for each country sewerage scheme and the maximum rate in the dollar gross rental value wastewater service charge and the merits of an alternative charging structure;
- the appropriateness of continuing uniform Statewide major fixture and volumetric discharge sewerage charges for business; and
- the impact proposed pricing structures will have on the Water Corporation's revenue and expenses, as well as payments to, and from, the government.

The Authority is to have regard to the principles of the Government's uniform pricing policy, demand management targets, and other social, economic and environmental policy objectives.

The Authority will release an issues paper as soon as possible after receiving the reference. The paper is to facilitate public consultation on the basis of invitations for written submissions from industry, government and all other stakeholder groups, including the general community.

A draft report is to be made available by 31 January 2006 for further public consultation on the basis of invitations for written submissions.

A final report is to be completed by no later than 28 April 2006.

**ERIC RIPPER MLA
DEPUTY PREMIER; TREASURER;
MINISTER FOR GOVERNMENT ENTERPRISES;
MINISTER ASSISTING THE MINISTER FOR PUBLIC SECTOR MANAGEMENT**

Appendix 2: Country Water and Wastewater Tariffs

This appendix sets out the Corporation's current water and wastewater tariffs for country customers, as published on the Corporation website (www.watercorporation.com.au).

Country Residential Water Tariffs

Each residential property is subject to a service charge and to usage charges.

Service Charge

In 2005/06 the service charge for each residential unit is \$152.30, which is the same as for the Perth metropolitan region.

Usage Charge

Water usage charges increase with use to encourage the efficient use of water. Water usage charges in the country are the same up to 350 kL (approximate average residential consumption). Charges then vary based on the costs associated with providing water to the specific town or area.

There are two groups of towns:

- Group A covers the majority of country towns, while
- Group B covers towns in the north of the State (above the 26th parallel) and some other towns (e.g. Cue, Laverton, Leonora, Meekatharra, Menzies, Mt Magnet, Sandstone, Wiluna and Yalgoo).

Within each group, each town or area is allocated to one of five classes on the basis of the cost of providing water to that town or area.

Appendix 3 sets out the full list of towns in each group and class.

In 2005/06 the tariffs for Group A are:

Usage (kL) per year	Class 1 c/kL	Class 2 c/kL	Class 3 c/kL	Class 4 c/kL	Class 5 c/kL
First 150 kL	42.5	42.5	42.5	42.5	42.5
next 200 kL (350)	68.9	68.9	68.9	68.9	68.9
next 100 kL (450)	85.1	87.6	87.6	87.6	87.6
next 100 kL (550)	85.1	113.1	124.3	135.7	139.5
next 200 kL (750)	122.6	128.0	147.4	163.0	178.4
next 400 kL (1150)	156.0	211.3	235.7	268.2	300.7
next 400 kL (1550)	224.1	308.8	357.4	487.6	601.1
next 400 kL (1950)	258.3	381.9	471.3	585.1	698.8
over 1950 kL	300.2	487.6	568.8	682.4	780.0

Special (lower) tariffs for usage between 351–550 kL and 551–650 kL apply to towns in Group B. In 2005/06 the tariffs for Group B towns are:

Usage (kL) per year	Class 1 c/kL	Class 2 c/kL	Class 3 c/kL	Class 4 c/kL	Class 5 c/kL
First 150 kL	42.5	42.5	42.5	42.5	42.5
next 400 kL (550)	68.9	68.9	68.9	68.9	68.9
next 100 kL (650)	77.7	83.2	83.2	83.2	83.2
next 100 kL (750)	122.6	128.0	147.4	163.0	178.4
next 400 kL (1150)	156.0	211.3	235.7	268.2	300.7
next 400 kL (1550)	224.1	308.8	357.4	487.6	601.1
next 400 kL (1950)	258.3	381.9	471.3	585.1	698.8
over 1950 kL	300.2	487.6	568.8	682.4	780.0

Country Residential Wastewater Tariffs

Sewerage charges for residential properties are based on the rateable value of the property.

The rateable value is derived from the GRV (gross rental value, or estimated gross annual rent) determined by the Office of the Valuer General for the property.

The tariffs are set independently for each country town sewerage scheme, with the objective of recovering the costs of providing sewerage services to the specific town or area.

The minimum country residential sewerage charge in 2005/06 is \$241.30 per residential unit. The maximum country residential sewerage charge in 2005/06 is \$612.40 per residential unit.

Country Commercial Water Tariffs

Commercial properties are subject to a service charge and to usage charges.

Service Charge

The service charge for water is based on the size of the metered water service serving the property.

In 2005/06 the charges are:

Meter Size	Charge 2005/06
15mm & 20mm meter	\$461.90
25mm meter	\$721.70
30mm meter	\$1,039.30
35mm, 38mm & 40mm meter	\$1,848.00
50mm meter	\$2,887.00
70mm, 75mm & 80mm meter	\$7,390.00
100mm meter	\$11,548.00
140mm & 150mm meter	\$25,982.00

For strata titled units sharing a meter, the service charge in 2005/06 is \$152.30.

Usage Charges

Each town or area is allocated to one of five classes on the basis of the cost of supplying water to that town or area.

In 2005/06 the tariffs are:

Usage (kL)	Class 1 c/kL	Class 2 c/kL	Class 3 c/kL	Class 4 c/kL	Class 5 c/kL
First 300 kL	84.7	112.5	123.6	135.1	138.8
over 300 kL	148.0	200.6	223.6	254.6	285.3

Country Commercial Wastewater Tariffs

On 1 July 2003 the Corporation introduced a new method of charging commercial properties for sewerage. The new tariff consists of a service charge, based on the number of major sewerage fixtures (e.g. toilets and urinals) and a usage charge, based on the assessed volume of wastewater discharged into the sewerage system.

The new charges are being phased-in, in most cases over six years.

The sewerage charge for 2005/06 will be determined by comparing last year's bill with the ultimate combined service and usage charges. These charges will be assessed using 2005/06 sewerage charges as the base.

Service Charges

In 2005/06 the charges are:

Fixture *	Charge (\$/year)
First Fixture	\$516.00
Second Fixture	\$220.80
Third Fixture	\$294.90
Over 3 Fixtures (each)	\$320.70

* Note: Fixture charges are cumulative.

In 2005/06 the service charge for strata titled units sharing facilities is \$320.70.

Usage Charges

In 2005/06 the usage charge is 193.10 c/kL.

A 200 kL free discharge allowance per annum applies to each property. No usage charge applies to properties where the annual volume of discharge is less than 200 kL.

Vacant Land Water Tariffs

Vacant land is subject to a service charge and to usage charges.

Service Charge

The charge for 2005/06 is \$152.30

Usage Charges

2005/06 residential usage charges apply to vacant land held for residential purposes. For usage charges please refer to country residential water usage charges above.

A country vacant land usage charge of 122.40 c/kL applies to vacant land held for purposes other than residential.

Vacant Land Wastewater Tariffs

Sewerage charges for vacant land are based on the rateable value of the property.

The rateable value is derived from the GRV (gross rental value), determined by the Office of the Valuer General for the property.

The tariffs are set independently for each country town sewerage scheme, with the objective of recovering the costs of providing sewerage services to the specific town or area.

The minimum country sewerage charge for vacant land in 2005/06 is \$158.90. The maximum country sewerage charge for vacant land held for residential purposes is \$612.40.

Appendix 3: Country Towns Within Each Class

Group A classes	Country Towns
1	Albany, Allanooka Farmlands, Australind/Eaton, Boyanup, Brunswick/Roelands/Burekup, Capel, Cervantes, Collie, Collie Farmlands, Cunderdin, Dalyellup, Dathagnoorara Farmlands, Dongara/Denison, Donnybrook, Esperance, Geraldton, Gnarabup, Grass Valley, Hamel/Waroona, Harvey/Wokalup, Jurien, Kalbarri, Mandurah, Margaret River, Moora, Narngulu, Northam, Park Ridge, Pinjarra, Porongorup, Walkaway, Wundowie, Yarloop/Wagerup
2	Allanson, Bakers Hill, Beverley, Binningup, Bodallin, Boddington, Boyup Brook, Burracoppin, Carnamah, Coorow, Dardanup, Darkan, Dowerin, Dunsborough/Yallingup, Dwellingup, Eneabba, Eradu, Gabbadah, Gingin, Greenbushes/Balingup, Greenhead, Guilderton, Karakin, Kellerberrin, Lancelin, Ledge Point, Leeman, Manjimup, Meckering, Merredin, Mingenew, Nannup, Narrogin, North Dandalup, Pemberton, Peppermint Beach, Tammin, Toodyay, Wagin, Williams, Woodridge, York
3	Arrowsmith Farmlands, Augusta, Bindoon/Chittering, Bolgart, Bremer Bay, Bridgetown/Hester, Brookton, Broomehill, Bullaring, Calingari, Coolgardie, Cuballing, Dalwallinu, Denmark, Doodlakine, Gibson, Goomalling, Highbury/Piesseville, Hines Hill, Hopetoun, Kalgoorlie/Boulder, Kambalda, Katanning, Katanning Farmlands, Kendenup Farmlands, Kirup, Kojonup/Muradup, Koorda, Marvel Loch, Morawa, Morawa Farmlands, Mt Barker, Myalup, Nabawa, Narrikup, Northampton, Northcliffe, Pingelly, Pithara, Porongorup Farmlands, Preston Beach, Quairading, Seabird, Southern Cross, Three Springs, Westonia, Wickopin, Woodanilling, Wyalkatchem, Yearling
4	Badgingarra, Ballidu, Bruce Rock, Bunjil, Caron, Condingup, Corrigin, Cowaramup, Cranbrook, Dandaragan, Frankland, Gnowangerup, Horrocks, Hyden, Jerramungup, Kalannie, Kendenup, Kondinin, Kulin, Kununoppin, Lake Grace, Latham, Merredin Farmlands, Miling, Moorine Rock, Mukinbudin, Mullewa, Mullewa Farmlands, Narembeen, Narrogin Farmlands, New Norcia, Newdegate, Norseman, Northam Farmlands, Nyabing, Perenjori, Pingaring, Popanyinning, Tambellup, Trayning, Walpole, Wandering, Watheroo, Widgiemooltha, Wongan Hills, Wubin
5	Arrino, Beacon, Bencubbin, Bindi Bindi, Borden, Broad arrow, Bullfinch, Buntine, Coomberdale, Dudinin/Harrismith/Jitarning, Dumbleyung, Grass Patch, Karlgarin, Kukerin/Moulyinning, Lake King, Mount Roe, Mullalyup, Munglinup, Muntadgin, Nungarin, Ongerup, Ora Banda, Pingrup, Quininup, Ravensthorpe, Rocky Gully, Salmon Gums, Tincurrin, Varley, Wellstead, Yerecoin, Yuna

**Group B
classes**
(generally for
towns above
the 26th parallel)

Country Towns

1	Broome, Dampier, Kununurra, Port Hedland, South Hedland
2	Carnarvon, Derby, Exmouth, Fitzroy Crossing, Karratha, Meekatharra, Mount Magnet, Newman, Wiluna
3	Camballin, Cue, Denham (Saline), Gascoyne, Halls creek, Laverton, Leonora, Point Samson, Roebourne, Wickham, Wyndham, Yalgoo
4	Lake Argyle, Marble Bar, Nullagine, Onslow, Sandstone
5	Menzies, Wittenuom

Appendix 4: Glossary and Abbreviations

Act	Economic Regulation Authority Act (2003)
Authority	Economic Regulation Authority (Western Australia)
Corporation	Water Corporation (Western Australia)
CSO	Community Services Obligation
GRV	Gross Rental Value, which is the gross annual rental that the property might reasonably be expected to realise if let on a tenancy from year to year (determined by the Valuer General)
kL	Kilolitre, which is 1,000 litres.
LRMC	Long run marginal cost, which is the forward looking cost of supplying an additional unit of water to meet increases in projected demand, through new source development and/or demand management programs.
Power and Water	Power and Water Corporation (Northern Territory)
SA Water	South Australian Water Corporation