



*Our Ref:* IJ:W129

*Your Ref:*

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31 January 2008

Inquiry on Competition in the  
Water and Wastewater Services Sector  
Economic Regulation Authority  
PO Box 8469  
**PERTH BC WA 6849**

Email: [watercompetition@era.wa.gov.au](mailto:watercompetition@era.wa.gov.au)

**ATTENTION :**            **MR GREG WATKINSON**  
                                 **DIRECTOR, REFERENCES & RESEARCH**

Dear Mr Watkinson,

**RE: DRAFT REPORT – INQUIRY ON COMPETITION IN THE WATER AND  
WASTEWATER SERVICES SECTOR**

Thank you for the opportunity to provide feedback on the abovementioned draft report.

The following feedback is hereby provided;

- Page (xii)  
Summary of Draft Recommendations and Findings  
Regional and Remote Operations.  
  
“17) There may be potential significant cost savings from the reconfiguration of water and wastewater services in the Bunbury and Busselton areas. However, further investigation prior to the release of the Final Report is required before any definitive conclusions can be made.”

**Comment:**

Any investigation needs to be;

- Properly resourced.
- Completed by an independent third party with high water industry creditability.
- Fully involve Aqwest Bunbury Water Board.
- Have a realistic timeframe.
- Cognisant of genuine customer service.

- Page 24

Post 2000 scenario.

“While it would be difficult to ensure sufficient security under this scenario without committing to the construction of the second desalination plant, there are a range of possible additional sources. These include:

- The potential sinking of extra bores in less environmentally sensitive areas;
- A possible water trade with Aqwest;
- Increased use of demand management options; and
- A review of pricing arrangements.”

**Comment:**

Any significant water trade with Aqwest is not possible. Aqwest’s licenced allocation is 9.2 GL with recent production being as follows;

<b>Year</b>	<b>Water Production (kL)</b>	<b>Average Residential Consumption</b>
2000	6,893,000	317
2001	7,318,000	350
2002	6,482,580	300
2003	6,407,652	302
2004	6,846,789	341
2005	6,594,681	336
2006	6,502,829	315
2007	6,766,557	314

- Page 26

“A further water source option that could be considered is a potential bulk water trade from the Bunbury region. It is understood that Aqwest has an annual allocation of 13.2 GL which is in excess of its current annual demand of approximately 7 GL. It may be possible for the Corporation and Aqwest to enter into a trade that would result in any water not needed by Aqwest in the short-term being transferred for use in the IWSS.”

**Comment:**

Aqwest’s annual licenced allocation is 9.2 GL.

- Page 26

“Pricing can also play a role in reducing demand. An approach to pricing referred to as Long Run Marginal Cost (LRMC) pricing is being introduced gradually in Western Australia and will be implemented by 2013-14.<sup>27</sup> The objective of LRMC pricing is to reflect in usage charges the cost consequences of a sustained increase in demand (such as the costs of future water sources). As a result, low usage charges are being

increased and high usage charges are being lowered to reflect the estimates of LRMC.”

**Comment :**

The use of Long Run Marginal Cost (LRMC) pricing does not take into account the long term sustainability of the water resource or good water conservation practices. It is therefore severely flawed and does not seem genuinely applicable to the water industry.

- Page 84

“The remaining relevant matters raised in the ACIL Tasman report relate to Aqwest and the Busselton Water Board. The finding that there appears to be little benefit from combining water with wastewater operations supports the current water only structure of the water boards. However, the findings that there may be cost savings from a reconfiguration of operations in the Bunbury/Busselton area deserves further investigation. This matter is addressed below.”

**Comment:**

See previous comments relating to (17) on Page (xii).

Thank you again for the opportunity to provide feedback.

Yours faithfully,

Brad Bevis  
**CHIEF EXECUTIVE OFFICER**