INTERIM SUBMISSION

Economic Regulation Authority

INQUIRY INTO TARIFFS OF THE WATER CORPORATION, AQWEST AND BUSSELTON WATER

MAY 2009

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1.0 BACKGROUND

The Western Australian Local Government Association (WALGA) is the united voice of Local Government in Western Australia. The Association is an independent, membership-based group representing and supporting the work and interests of all 139 Local Governments in Western Australia, plus the Christmas Island and Cocos (Keeling) Island Councils.

The Association provides an essential voice for almost 1,400 elected members and over 12,000 employees of the Local Governments in Western Australia. The Association also provides professional advice and offers services that deliver financial benefits to Local Governments and the communities they serve.

This interim submission has been prepared in consultation with individual stakeholders within the sector. It will be considered by the WALGA Zone and State Councils at the next opportunity. Any amendments will be forwarded following the next State Council meeting in August 2009.

Nineteen Local Governments in Western Australia are licensed by the Economic Regulation Authority (ERA) to provide sewerage and non-potable water services, and one is licensed to provide non-potable water only.

Twenty nine Local Governments in Western Australia manage 75% of the urban drainage network. Water Corporation manages 20% of the network (primarily the main drains) with the balance managed by Main Roads WA and WestNet Rail.

While Local Governments, as customers of Water Corporation, Aqwest and Busselton Water have a general interest in the regulated tariffs for the supply of potable water, this submission is focussed on tariff arrangements for sewerage and drainage services, given the strong link to corresponding services provided by Local Governments in different areas.

2.0 WASTEWATER TARIFFS

Recommendation 7
Residential wastewater charges be no longer based on property values but instead be based on estimated winter water usage, which is a reasonable proxy for discharge into the sewer.

Nineteen Local Governments across Western Australia provide wastewater services within their jurisdiction. The charging basis for this service mirrors that of the Water Corporation, being set as a proportion of the Gross Rental Value. While it may be possible and appropriate for Local Governments to use a different approach for residential wastewater charges to that of the Water Corporation, this may create new inequities.

In order for Local Governments, or in future other wastewater service providers, to be able to establish wastewater charges on the basis of winter water usage would require the water service provider (typically Water Corporation) to provide individual consumption data to the waste water service provider. The practical, commercial and confidentiality issues surrounding this would need to be addressed in order to ensure that waste water service providers, other than Water Corporation, are not unfairly disadvantaged.

If waste water service providers, other than Water Corporation, are to use winter water consumption as the basis for charging this would require them to establish and maintain a separate database and

charging system which will add costs compared to the current system which links to the property rates, with valuations provided by the Valuer General's Office.

Other issues associated with the proposed change that need further consideration include:

a) The time lag (presumably one year) between measured winter water consumption and the charge for waste water services. This may have implications where properties change ownership or there is a change of tenancy.
b) Currently typical tenancy agreements require the landlord to meet fixed charges associated with water and drainage services, and the tenants to meet water consumption charges. If waste water charges are linked to water consumption, then there will be an increasing tendency for tenants to be responsible for this charge. The social equity issues associated with this require consideration.
c) As households respond to government encouragement and incentives to establish water supply independent of the main reticulated supply there may be an increasingly weak relationship between measured winter water consumption and contribution to the waste water system. Studies indicate that in the Western Australian environment rainwater tanks can make a significant contribution to reducing winter water consumption, despite in most cases making only a small contribution to annual water consumption[1].

3.0 DRAINAGE TARIFFS

Recommendation 10
Developers be charged the costs of any drainage infrastructure that is required to service developments (with the developer charge based on the average costs to the Water Corporation of expanding the drainage network over the last 10 years).

While arguably outside of the scope of this Inquiry, Local Governments support an extension of this recommendation to include developer contributions to expand the capacity of downstream drainage infrastructure owned and operated by Local Governments.

Developers should also be required to provide costed maintenance and renewal programs for new drainage assets which will be transferred to Local Governments, in order to provide a rigorous basis on which drainage tariffs can be based.

Recommendation 11
Residential and commercial customers within the main drainage system provided by the Water Corporation in Perth be charged the costs that remain after the costs attributed to developers have been deducted.

Recommendation 14
In future, any expenditure on drainage quality be recovered through a levy on all of the Water Corporation's water customers in the scheme.

Significant shortcomings in how urban, peri-urban and rural drainage is structure, governed, managed and funded in Western Australia have been recognised for many years and subject to a large number of working groups, studies and reviews. More efficient and effective pricing mechanisms for drainage alone will not achieve an improved outcome without concurrent attention to the governance, planning and management aspects.

[1] Marsden Jacob and Associates 2009 The Cost Effectiveness of Rainwater Tanks in Perth

There is evidence that significant investment will be required in both renewal of now aging drainage infrastructure, and in upgrading infrastructure to significantly reduce the environmental impact of drainage flows into waterways and lakes. It is noted that new investment is not proposed by the Water Corporation in the coming regulatory period. However, there is a need to provide clear direction and put processes in place to fund this in subsequent regulatory periods.

Much of the expenditure on drainage quality will be upstream, on the Local Government owned and operated infrastructure.

If a levy is applied to all Water Corporation water customers, those in Local Government served drainage areas would be charged twice for the same service.

It would seem that drainage expenditure to ensure that adequate infrastructure to achieve agreed service standards in flood prevention be funded by landholders and paid to the service provider (Water Corporation or Local Governments).

The whole community are beneficiaries of improved environmental outcomes in waterways and hence this work, on Local Government and Water Corporation assets should be funded through general government revenues.

Recommendation 12
Customers within the Water Corporation's main drainage system in Perth be charged for drainage on the basis of land area.

a) *All residential customers plus non-residential drainage customers with land area less than 1,000 square metres be charged $73.17 per year.*
b) *Non-residential drainage customers with land area from 1,000 square metres to 10,000 square metres be charged $365.85 per year.*
c) *Non-residential drainage customers with land area above 10,000 square metres be charged $731.70 per year.*

Recommendation 13
The proposed drainage charges be introduced in 2010-11 and then held constant in real terms.

Most Local Government drainage charges reflect the current approach used by Water Corporation, being based on the Gross Rental Value (GRV) with a minimum charge. The rate in the dollar of GRV and minimum charge varies between service providers according to the funding required to deliver the service.

From a theoretical perspective there is no relationship between the drainage charge and usage. Although it is agreed that there is no evidence to support a strong correlation between property values and income, property value does to some degree reflect capacity to pay.

Local Governments would generally not be opposed to a flat (per property) charge for residential drainage services.

The costs and risks associated with maintaining a separate, up to date land area based charging system for non-residential property requires detailed consideration and is currently not supported by Local Governments.

The proposed two tiered arrangement while simple, will inevitably raise issues with those owning properties just exceeding 10,000 square metres.

4.0 OTHER TARIFFS

Recommendation 16
Subsidies to public and charitable institutions for water and wastewater services be either paid for by a CSO or discontinued, rather than be paid for by other customers.

There exist long standing arrangements under which public, including some Local Government facilities and charitable institutions are exempt from the fixed charge for water. Correspondingly Local Government does not receive any income from rating of properties owned by the Water Corporation.

Local Government supports this recommendation only provided that the offsetting CSO is supported and funded by the State Government and maintained over time.

Recommendation 18
Water usage charges for farmland, local government standpipes and stock watering be set cost reflectively, and include a quota for residential use set at residential prices, with commercial pricing for usage above the quota.

It is unclear how this recommendation is to be implemented in practice to deliver the appropriate price signals to multiple users of a single standpipe.

5.0 REFERENCES

Marsden Jacob and Associates 2009 The Cost Effectiveness of Rainwater Tanks in Perth
A Report Prepared for the Water Corporation and the Department of Water.