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Mr L Rowe  
Chairman  
Economic Regulation Authority  
PO Box 8469  
Perth Business Centre  
PERTH WA 6849

629 Newcastle Street  
Leederville 6007  
Western Australia  
PO Box 100  
Leederville 6902  
Perth Western Australia  
Tel (+61 8) 9420 2420  
[www.watercorporation.com.au](http://www.watercorporation.com.au)  
ABN 28 003 434 917

Dear Mr Rowe

**WATER CORPORATION'S RESPONSE TO THE INQUIRY INTO WATER RESOURCE MANAGEMENT CHARGES – DRAFT REPORT**

Thank you for the opportunity to comment on the Economic Regulation Authority's (ERA) first draft report *Inquiry into Water Resource Management Charges (December 2009)*.

As the major supplier of potable water in Western Australia, the Water Corporation is one of the primary beneficiaries of the water resource management and planning activities performed by the Department of Water (DoW).

The Corporation is generally supportive of the recommendations by the ERA in its draft report for the recovery of the DoW's water resource management and planning costs. However, this support is contingent on the findings of the ERA's second draft, the principles for charging cannot be fully appreciated until the details have been finalised and the financial impact determined.

Previous issues and concerns raised by the Corporation in its responses to the ERA Issues Paper (June 2009) and Discussion Paper (August 2009) have largely been addressed in the draft report recommendations. Specifically, the draft recommendations appear to address the Corporation's concerns that:

- Charges will be based on the efficient costs only.
- Charges will be recovered from those parties that cause the costs to be incurred.
- Ability to pay concerns will not influence the design of the charges.
- Licence holders who contribute significantly to allocation plans should receive a reduction in their fees.
  
- Any charges to licence holders should be:
  - practical to implement;
  - clear and transparent; and
  - equitable, with licence holders in similar situations facing similar charges.

- Where practicable, charges to licence holders would vary by region to reflect the costs of water resource management in each region.
- The DoW is to develop service standards and performance indicators for the relevant activities in conjunction with a water industry committee or existing key stakeholder groups.

If these principles are adopted in a practical fashion, the Corporation supports the related recommendations.

However, the Corporation notes the concern of the ERA regarding the current inability to conclude on whether the DoW's costs are efficient, as well as the difficulty in allocating these costs to their respective areas for the basis of calculating charges. Establishing a sound underlying cost basis for the charges is a fundamental requirement and should not be rushed simply for the sake of introducing charges sooner rather than later. The Corporation is satisfied with the ERA's suggested way forward to resolving these underlying cost issues and would add that an annual efficiency target should be factored into DoW's budgets as a mechanism for encouraging the future pursuit of efficiencies.

While the Corporation is satisfied with the ERA's draft principles, some clarification of this position is noted below:

**(i) Regulatory Arrangements and Service Standards**

The Corporation is interested in the degree to which the users in the water industry are able to influence the service standards being delivered. The rights and obligations of each party attached to any payment need to be clear and where appropriate, negotiable. Where a payment essentially creates a service provider / customer relationship, this influence could include the:

- timeliness and standard of service being delivered; and/or
- geographical areas being investigated or reviewed.

Recommendation 22 recognises the need for developing these standards with a water industry committee. The Corporation would welcome the creation of (and participation in) such a committee. The extent of the Corporation's support for any charges is largely dependent on its satisfaction with the actual standard of service received.

Furthermore, the Corporation notes that the majority of the key performance indicators suggested for service standards (page 54, Table 5.1) relate primarily to the measures of cost and timeliness. While these measures are important, there are no qualitative measures of the standard of service delivered, for example recognising the completion of high priority applications and accuracy of the assessment. Qualitative indicators help ensure that the quality of the service is maintained, although it is acknowledge that they may be difficult to determine.

**(ii) Principles of Cost Recovery**

Where a payment is simply considered a contribution to the State's planning and management costs, then this would appear to be more in the nature of a tax rather than a service provider / customer relationship.

As a "tax", there appears to be little justification for such a charge. There is no efficiency to be gained from any pricing signal, and there is not a strong equity argument for charging organisations that predominately service communities residing in the State. For example, protecting environmental flows, scheme water services, public open spaces and many farming and agricultural activities. In such circumstances, the Corporation does not see the merits of a charge over the current funding arrangements from the general tax base. 'Transparency' alone is not sufficient reason for shifting the tax burden, efficiency and equity need to be demonstrated.

The above principle appears to have been recognised by the ERA in recommending that charges should not be levied for activities that benefit the general public. However, the position is not clear where the service to the general public is provided through a service organisation.

**(iii) Planning Activities for Future Users**

How does the ERA recommend charging for planning activities where the water users under consideration are predominately future users?

Using the State's North as a good example, much of the current planning activities is focussed on meeting the future needs of the region's water requirements. The time horizon for this forecasts decades into the future, incorporating the requirements of as yet unspecified individuals. It is not appropriate that current users or present interested parties pay the entire cost of these planning activities that benefit future users.

Finally, one comment of concern for the Corporation is the ERA's suggestion (page 15) that garden bore owners could be charged on behalf of the DoW, using the Corporation's billing system. There is no inherent reason why the Corporation is better placed than any other service provider to administer the DoW's billing. It would be appropriate for the DoW to put the billing requirements to tender. If (as the most efficient option) the Corporation were to be the successful tender applicant – the arrangement would be a commercial one which clearly separates charges for the respective organisations. Primarily for reasons of ensuring there are clear lines of responsibility and accountability, the Corporation would not include DoW charges on its own bills. Furthermore, it should be noted that the Corporation does not have records of all garden bore owners, with additional work required to determine a complete and accurate billing database.

Yours sincerely

Sue Murphy  
CHIEF EXECUTIVE OFFICER