

**Division 10: Economic Regulation Authority, \$2 525 000 —**

Mrs L.M. Harvey, Chairman.

Mr C.J. Barnett, Treasurer.

Mr L.G. Rowe, Chairman.

Mr R.C. Pullella, Acting Chief Executive Officer.

Mr A.D. Temby, Principal Policy Adviser, Office of the Premier.

[Witnesses introduced.]

**The CHAIRMAN:** The member for Victoria Park.

**Mr B.S. WYATT:** I refer to page 148 of budget paper No 2. The estimated actual appropriation for the Economic Regulation Authority in 2009–10 was \$6.696 million and for 2010–11 there is a significant drop to \$2.525 million. I note at page 155 that the government is expecting a significant rise in recoups from industry from \$3.7 million in 2009–10 to \$7.1 million in 2010–11. I assume that is the reason for the substantial cut in the ERA budget. Why is there expected to be such a large rise in recoups from industry?

**Mr C.J. BARNETT:** It is a very good question. I imagine it relates to the timing of workload. I will ask the chairman to comment on that.

**Mr L.G. Rowe:** There is a proposal for increased industry funding for the ERA. Currently the work the ERA does in the gas access area is funded by industry. I understand that government has made a decision that that should apply also to electricity and in the work the ERA does in licensing of water, gas and electricity providers. The budget assumes some of that comes into being from 1 July 2010.

**Mr B.S. WYATT:** It is a doubling of the current recoups from industry. It seems to me to be an ambitious target, but the ERA is dependent upon that in light of the cuts in its appropriation. Is the Treasurer confident that those significant cuts in the total appropriation will not impact on the actual work of the ERA?

**Mr C.J. BARNETT:** I would be confident about that and the industry should be financing the regulatory role. I think the member would agree with that.

**Mr B.S. WYATT:** I do.

**Mr C.J. BARNETT:** If it were the case that the ERA found that the revenue stream from industry did not materialise or did not come as quickly, we would provide extra funding. We would not allow the ERA to be lacking in the funds necessary for it to undertake its work. I expect that to be met through industry funding. It is basically prescribed.

**Mr L.G. Rowe:** The regulation will need to be changed to allow that to happen. My understanding is that in the event that they are not in place, we will deal with that through the midyear review.

**Mr B.S. WYATT:** Is the reason for doubling the recoups from industry that the government sees more work being done by the ERA for those industry groups, or is it simply because the current work it is doing will not be charged out? Therefore, a significant increase in FTEs will not be required to deliver on that.

**Mr C.J. BARNETT:** The chairman made the point that if the regulations are not in place, there may be a need to provide some supplementary funding to the ERA. As these access arrangements and regulatory reforms are put in place, they attach with them charges on industry. Industry accepts that and it will be paid.

**Mr B.S. WYATT:** I am not disputing the decision to do that. I know that in one year there is a significant cut in appropriations and a significant rise in recoups from industry. I raise that issue now and no doubt I will raise it again.

**Mr C.J. BARNETT:** Maybe the member is suggesting that it might be an ambitious timetable.

**Mr B.S. WYATT:** Correct.

[12.30 pm]

**Dr M.D. NAHAN:** How will the levy on business be charged, given that there are different scales and capacity to pay across potential users?

**Mr C.J. BARNETT:** Which sector is the member talking about?

**Dr M.D. NAHAN:** Electricity.

**Mr C.J. BARNETT:** I ask the Chairman of the Economic Regulation Authority to comment on how the levy system will work.

**Mr L.G. Rowe:** My understanding is that the proposal is very similar to what currently happens in the gas industry. A standing charge covers the cost of the people involved in the ERA who do the access arrangements for the gas, and there is a service charge that takes into account any additional costs that might be incurred as a result of undertaking a particular access arrangement. Therefore, it is a combination of two charges. The standing charge, if we like, picks up the cost of the ERA, and the service charge will pick up the cost of any legal, economic or technical advice that we might need to undertake an access arrangement.

**Dr M.D. NAHAN:** Therefore, this is similar to what takes place in the eastern states, is it not?

**Mr C.J. BARNETT:** I ask the ERA chairman to answer that.

**Mr L.G. Rowe:** No, it is not. My understanding is that in the eastern states it is funded by government.

**Mr B.S. WYATT:** Was a regulatory impact statement done by the regulatory gatekeeping unit for this decision?

**Mr C.J. BARNETT:** I am not aware that an impact statement was done. If it comes through a cabinet decision, there would be a regulatory impact statement. The work is done at the ERA and if decisions are going to be taken by cabinet relating to this, that will attract the regulatory impact statement.

**Mr B.S. WYATT:** So it may happen.

**Mr C.J. BARNETT:** Yes.

**Ms R. SAFFIOTI:** I refer to submissions to the ERA governing body on page 151 of the *Budget Statements*. My question relates to the recommendation on increases in water bills for households. Why did the ERA recommend a 10 per cent increase in water prices?

**Mr C.J. BARNETT:** I will give part of that answer first. An increase in water charges of 17.7 per cent was announced in the budget. There are two elements that explain this apparent discrepancy between an increase of 17.7 per cent and the ERA's report that discussed an increase of 10.4 per cent. The first part of the explanation is that the water charge itself went up by 17.7 per cent. If we take into account water plus sewerage plus drainage, the combined effect on a household with all those services—that is, a household connected to deep sewerage—would be about 12 per cent. There was a lesser rate of increase in the other components of a total Water Corporation bill. My understanding is that the ERA's work—I will ask the chairman to comment on this—related to a different definition of household consumption and was an average across a three-year period. Therefore, the base was different but the final result, as I understand it, is consistent with the ERA report. However, I will ask the chairman to explain the ERA's 10.4 per cent figure.

**Ms R. SAFFIOTI:** Can I just clarify what the Treasurer said? As I understand it, the 10 per cent is just for water, because there is a two per cent increase for waste water. Therefore, the 10 per cent is directly comparable with the 17.7 per cent, as I understand it.

**Mr C.J. BARNETT:** Yes, but I was saying that there are two components to the issue. Although I said in the budget speech that water has gone up 17 per cent, the combined effect of water, drainage and sewerage is about a 12 per cent increase. That was one aspect of this whole issue of the cost of the service. The second aspect, as the member correctly says, is the price of water and the ERA's ruling on water charges at a 10.4 per cent increase. My understanding is that it relates to both the definition used and the time period over which it is measured, but I ask the Chairman of the ERA to explain that.

**Mr L.G. Rowe:** The Economic Regulation Authority is pleased because the government has in fact picked up the ERA's recommendations.

**Mr C.J. BARNETT:** Mr Rowe is probably the only person who is!

**Mr L.G. Rowe:** It is important, in the ERA's view, that water is priced appropriately to encourage people to use it efficiently. The recommendations we made to the government in the 2009 report were aimed at just that—setting a price that sends the right signals to consumers of water.

There are four reasons why there was a difference. First, I have to explain why those figures came about. There was a small adjustment, because there was a fault in our model, after we published our final report, which meant the 10.2 per cent became 10.4 per cent. That resulted in a change not to the usage rates but in the fixed rate—it meant a small increase in the fixed rate. It is also important to remember that the recommendations for tariffs in the 2009 report were in June 2009 dollars, and the 10.4 per cent was a real increase. Therefore, the second reason why there was a change is that we need to have an inflation factor for that 10.4 per cent. I think Treasury used an inflation rate of about 2.38 per cent in 2009–10 and 2.1 per cent in 2010–11. The third reason, which the Treasurer picked up, is a definitional reason. In the budget speech the Treasurer talked about someone using

300 kilolitres of water. In arriving at the 10.4 per cent figure, the authority looked at the average increase for all users in the metropolitan area. The average use is a little less than 300 kilolitres, so that makes a difference as well. We looked at the total revenue for that year divided by the number of users in the metropolitan area and came up with an increase. In the budget speech the Treasurer took a household using 300 kilolitres and looked at the impact on prices based on that. In fact, for households that use less than 300 kilolitres, the increase will be less than 17.7 per cent, and for some households that use more than 300 kilolitres, the increase will be more than that. The final reason is that in taking the 300 kilolitres and applying it for the full year, we get a higher price than would actually be charged to households. Because of how the meters are read, some of those increases will apply to only a part year. The ERA looked at the revenue to the Water Corporation and took that into account, but in taking the 300 kilolitre figure and adjusting that and assuming that those rates apply for a full year, we got an increase that is greater than what households will have.

The short answer is that what the government did was entirely consistent with what the Economic Regulation Authority recommended.

**Mr C.J. BARNETT:** The ERA chairman is saying that the 17.7 per cent increase is consistent with the ERA's recommendation of 10.4 per cent.

**Ms R. SAFFIOTI:** To follow up on that, in the ERA's recommendation there is a 10 per cent average annual variation over three years—about 30 per cent roughly.

**Mr L.G. Rowe:** Yes; 10.4.

**Ms R. SAFFIOTI:** About 30 per cent over three years—is that right?

**Mr L.G. Rowe:** The recommendations for a three-year period were that there be a 10.4 per cent real increase each year.

**Ms R. SAFFIOTI:** Each year. To follow up, the government has accepted the ERA recommendation, so is that for about a 30 per cent increase over three years?

**Mr C.J. BARNETT:** No; we have accepted a 17.7 per cent increase for this coming year.

**Ms R. SAFFIOTI:** What is the expected increase for the following year?

**Mr C.J. BARNETT:** I will tell the member at the next budget because we will not make that decision until the next budget is delivered. The ERA obviously thinks there should be a similar increase but we will make that decision, as we will for electricity, in the lead-up to next year's budget.

**Ms R. SAFFIOTI:** If a 10 per cent ERA recommendation equates to 17 per cent for the average household because of all those issues and if the recommendations are for 10 per cent the following year, will that probably lead to a 17 per cent increase for an average household?

**Mr C.J. BARNETT:** The decision on any charge will be made discretely year-on-year each year. This budget is for 2010–11. The 2011–12 budget will be presented in 12 months and cabinet will consider every price. However, I will ask the chairman to comment on what the member has alluded to.

**Mr L.G. Rowe:** The 10.4 per cent increase each year will apply to the average user in the metropolitan area based on the number of users in the metropolitan area divided into the revenue. It is a 10.4 per cent real increase, so whatever the inflation rate is will have to be added to that 10.4 per cent. That 10.4 per cent is the appropriate figure. For some users the increase will be higher than that and for other users it will be lower; it depends where they fit. For example, if the government had decided to base it on usage of 250 kilolitres, the increase this year would have been 15.2 per cent, not 17.7 per cent.

**Ms R. SAFFIOTI:** The household model usage of 300 kilolitres has been used for a number of years—13 years, I think.

**Mr L.G. Rowe:** The average use is about 270 kilolitres.

[12.40 pm]

**Ms R. SAFFIOTI:** Assuming that model of 300 kilolitres continues, the 10 per cent real increase shown in the Economic Regulation Authority report will lead to, let us say, a 17 per cent increase for a 300 kilolitre usage per typical household.

**Mr C.J. BARNETT:** The point I make is that the ERA recommendation is one thing, and that recommendation is about efficient water usage and cost recovery. I accept those principles. But the decision on what the actual increase will be will be a decision of government. We have made a decision for only this coming year.

**Mr B.S. WYATT:** Which is?

**Mr C.J. BARNETT:** The full 17.7 per cent or the 10.4 per cent, depending on how it is measured.

**Ms R. SAFFIOTI:** I do not want to have a debate about the forward estimates, but does the Treasurer know the basis on which the revenue in the forward estimates for 2011–12 is anticipated, as with the Water Corporation increase in tariffs?

**Mr C.J. BARNETT:** I imagine that if Treasury took the approach that it took to electricity, it would have factored in further increases. I am not sure of that; I do not have the figures in front of me, but I imagine that is the case.

**Ms R. SAFFIOTI:** Can we have that through supplementary information?

**Mr C.J. BARNETT:** I will verify the way the forward estimate has been anticipated on that. Again, that is a Treasury estimation, not a government one.

*[Supplementary information No A46.]*

**The CHAIRMAN:** The members for Riverton and Victoria Park are listed for questions. However, I am mindful of the time and we need to get through division 11 before one o'clock.

**Dr M.D. NAHAN:** My question has been answered.

**Mr B.S. WYATT:** I am happy to move on to the Auditor General's division.

**The appropriation was recommended.**