

GRAMPIANS REGION WATER AUTHORITY

OUR REF: CS/0031/001:MW:ke
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CORPORATE OFFICE

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Ms Judith Sloan
Commissioner
Productivity Commission
Impact of Competitions Policy Reform
PO Box 80
BELCONNEN 2616

Dear Ms Sloan

SUBMISSION – IMPACT OF COMPETITION POLICY REFORMS ON RURAL AND REGIONAL AUSTRALIA

Thank you for the opportunity to comment on the issues relating to the impact of competition policy that is presently the subject of an inquiry by the Productivity Commission.

The Water Industry in regional Victoria has traditionally been part of the Local Government and therefore not subject to any uniform pricing. Prior to the introduction of water reform in Victoria there was a diversity of pricing policies for water in the 18 former authorities that formed Grampians Water. Grampians Water has since been rationalising its pricing structure as part of the introduction of two part tariff but this has been achieved as much as possible within a framework of overall revenue neutrality.

Pricing

Prior to the formation of Grampians Water, the basis of price determination varied significantly from Water Authority to Water Authority.

Since Grampians Water was established in February 1995, the Authority has fully implemented two part tariff with 60% of revenue coming from volumetric charges and 40% from fixed charges. The implementation of two part tariff has attempted to remove cross subsidies, but as newly formed Authorities, we are only just starting to fully understand our cost structures. To the extent that cross subsidies still exist, these are being identified and will be addressed as part of an ongoing pricing review process.

In relation to the issue of full cost recovery pricing the issue becomes one of definition. There has been much work done in this area through the SCARM Asset Valuation Study. The application of Optimised Depreciable Replacement Cost (ODRC) presents significant problems and we would advocate the Renewals Annuity approach that better equates to the Long Run Marginal Cost.



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If Full Cost Recovery using ODRC is adopted this would produce significant cost pressures not only for ourselves, but more particularly raw water costs from our Bulk Water suppliers.

Water Entitlements

The Grampians / Wimmera Mallee Water system is yet to be converted to entitlement. It is our belief however, that when this occurs the principles will provide greater certainty for Water Businesses in dealing with customers.

Overall Impact

Perhaps the greatest impact in our region has been the impact on community and sporting organisations. These organisations have been heavily subsidised in the past and are now expected to pay full price for water. The impact of this has been partially offset by the recent initiatives by the Government to partially fund these costs under a rebate scheme.

Other

The Authority is yet to be subjected to the competitive neutrality framework that also underpins competition policy and we are concerned as to the potential cost implications of its implementation.

Some other issues relating to overall GBE reform are those associated with the cost and service levels of business inputs, such as electricity and communications. Whilst there have been savings in retail energy prices, it is anticipated that these will be more than offset by increases in network charges. The same principles also apply to telecommunication services.

Should you like any further information, the Authority would be only too happy to participate further.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'M. Williams', with a stylized flourish at the end.

MARK WILLIAMS
Business Performance Manager