

W1 CoAG Water Reforms

Ideal Standards

1. Council has completed a Two-part tariff report.
2. Council has resolved to apply the COAG Water reforms and advised the QCA.
3. Council has a two-part tariff structure with an access charge and usage charge.
4. Approximately half of the water revenue comes from the usage charge (unless it can be proven that the LRMC is lower).
5. The assessment of Full Cost Recovery forms part of the full cost decision-making for the water and sewerage business activity. If the Business is a Type I or II, the Council is applying commercialisation to the water and sewerage business activity.
6. Council has identified any cross subsidies by consumer type.
7. Council has provided evidence that CSO's have been identified, costed and funded.
8. Council has provided evidence that a process has been established for ongoing performance.

Outline/Summary

Councils not currently applying two-part tariffs need to complete a Part A report, while Councils currently applying two part tariffs should complete a Part B report. Councils which still have a 'free' water usage allowance within their water prices are not regarded as having a two-part tariff, and should complete a Part A report. The Simplified Guidelines issued by DLGP contain the required details of these reports. These guidelines also contain a simplified spreadsheet to assist with the calculations for the Part A report.

The part A report is really a cost-benefit study for the implementation of two-part tariffs. Generally, the major costs arise from the installation of meters (if not already installed) and the benefits arise from deferral of system expansion costs and related operating costs resulting from reduced water consumption. Another potential major benefit is in assisting in the reduction of water losses in the system.

The Part B report is for Councils which currently have a two-part tariff, and is a review of the effectiveness of the tariff.

Councils with less than 1000 water connections are not required to undertake these reforms, although Incentive payments are available. The legislation requires all other Councils to comply.

The suggested resolution is "Council resolves to accept the recommendation to implement two-part water tariffs in 2002/03 as per the design principles outlined in the report, xxx".

Tariff Structure: The tariff structure should remove any free allowance, and ensure that approximately 50% of the revenue comes from the usage component of the tariff. As a rule of thumb, unless Councils can demonstrate that the Long Run Marginal Cost (LRMC) is covered by the usage charge, QCA will accept tariffs which generate 30-60% of the water revenue via the usage tariff, and will give some recognition to tariffs which raise over 25% from usage.

Full Cost Recovery: This is similar to Full Cost Pricing or Decision-making, with the exception that a positive rate of return (eg. over \$1.00) is required.

Cross-subsidies: The Queensland test for cross subsidies is to compare the total water price on a per kilolitre basis 'Average cost per kilolitre' (base charge plus consumption charge divided by the volume of water used) with the Long Run Marginal Cost (LRMC). A cross-subsidy is deemed to exist if any consumer class is paying an average cost per kilolitre higher than the LRMC, while another class has an average cost per kilolitre below the LRMC. The average cost per kilolitre is calculated by adding the base and consumption charges for an entire consumer class and dividing the amount by the amount of water consumed by that consumer class. Any discount for early payment should be taken off.

The LRMC is calculated by adding the marginal or variable cost to the increased cost of bulk supply and augmentation on a per kilolitre basis. According to the DNRM guidelines,, for a water scheme from a Councils own water supply, the LRMC may be approximated by using the average cost of providing these services where it can be assumed that the average will be close to the LRMC. For purchased water schemes, the guidelines suggest that the external bulk supply price may be used as an indicator or the LRMC for storage and its augmentation costs. The Council would need to also add its system delivery augmentation costs to determine the total LRMC.

Consumer classes are the major consumer groups such as residential, commercial and industrial.

Cross subsidies results should be reported to Council and incorporated in the annual report.

The suggested resolution is “Council resolves to disclose identified water and sewerage cross subsidies in the 2001/02 Annual Report”.

CSO’s As per FCD requirements, however note that NCC and QCA require evidence that the application of this framework is leading to CSO’s that are clearly defined, have an explicit public benefit objective, are transparently reported and are consistent with the aims of CoAG pricing reforms.

Ongoing Reforms: Similar to N14 above.

Key Steps

1. Complete Part A or Part B report
2. Council resolves to apply the COAG Water reforms and advise the QCA.
3. Council implements a two-part tariff structure with an access charge and usage charge.
4. Ensure approximately half of the water revenue comes from the usage charge (unless it can be demonstrated that the LRMC is lower).
5. Ensure that the assessment of Full Cost Recovery forms part of the full cost decision-making for the water and sewerage business activity. If the Business is a Type I or II, the Council is applying commercialisation to the water and sewerage business activity.
6. Identify any cross subsidies by consumer group, report to Council, and incorporate in the Annual Report.
7. Provide evidence that CSO’s have been identified, costed and funded.
8. Provide evidence that a process has been established for ongoing performance.

Further Information

DLGP – Evaluation of Introducing and Improving Two-Part Water Tariffs For Local Governments in Queensland – Simplified Guidelines, Sept 2000.

DNRM– Guidelines for Identification and Measurement of Cross-Subsidies, Sept 1998

Project Report and Case Studies for Cross-Subsidies and Inefficient Water Pricing: Identification and Reporting to Achieve Better Outcomes, Oct 1998

Documentation Standard

Council report and resolution. Budget document, Two-part Tariff report, Annual Report.