



COMMONWEALTH GRANTS COMMISSION

DISCUSSION PAPER CGC 2002/35

CONCESSIONS AND COMMUNITY SERVICE OBLIGATIONS

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INTRODUCTION

1. This is a discussion paper prepared by the staff of the Commonwealth Grants Commission on issues associated with the economic activities categories of:

- (i) Electricity and Gas;
- (ii) Water, Sanitation and Protection of the Environment; and
- (iii) Non-urban Transport.

2. It is one of the papers prepared for the staff level conference being held in Canberra on 21-22 November 2002. The views contained in the paper are those of Commission staff. This paper deals with:

- (i) the methods adopted by the Commission in the 1999 Review;
- (ii) the views of States on those methods and the proposals for change set out in CGC 2001/18, *2004 Review An Assessment Approach to Concession Payments and Other Community Service Obligations*, released in November 2001; and
- (iii) the options for assessments in the 2004 Review.

3. It begins by discussing issues of relevance to all three categories. It then discusses the proposed approach to the assessment for each category, using information provided by the States. In response to State arguments and reality checking of likely results, the assessments proposed are more complex than the Commission had envisaged. Commission staff will continue to look for simpler options, having regard to data quality and the materiality of different parts of the assessments.

4. Attachment A summarises the material provided by the States in response to the questionnaire included in CGC 2001/18. The questionnaire requested information on how services were provided and their impact on State budgets. Attachment B sets out additional information the Commission requires to complete its assessments.

Background

5. In its 1999 Review Report, the Commission said that a better understanding was required of the concessions and subsidies arrangements (community service obligations (CSO)) that States had entered into with service providers¹. As a result, the 2004 Review work program included this as a Group 1 issue of Principle and Method.

¹ *Report on General Revenue Grant Relativities 1999*, Vol 1, p.84.

6. Discussion Paper CGC 2001/18 proposed that the conceptual structure adopted for the concessions and other payments categories for the 1999 Review be continued. The main features of this were:

- (i) standards were based on direct government expenditure — payments made from State budgets, such as for community service obligations to Public Trading Enterprises (PTEs) or external providers, were included but not the operating transactions of PTEs;
- (ii) standards excluded any dividend payments made by the PTEs to the general budget — these were included in the revenue category, Contributions by Trading Enterprises; and
- (iii) the assessment of needs focused on the disabilities faced by States in making CSO payments rather than on those relevant to the direct provision of service.

7. The Commission has decided to apply the same approach to the Urban Transit assessment for the 2004 Review. The assessment proposed for that category is well developed as a result of the contributions made by a working party involving Commission staff and State Treasury officers. It is set out separately in Discussion Paper CGC 2002/27, *Urban Transit*.

SCOPE AND STRUCTURE

1999 Review

8. In the 1999 Review, the Commission made changes to its category structure and assessment methods to take into account the major changes in State service provision brought about by micro-economic reform (MER) and the National Competition Policy (NCP). It grouped those services provided largely by public trading enterprises (PTEs) that were principally subject to the NCP in a Concessions and Other Payments (COP) group of categories.

9. The COP group of categories comprised:

- (i) Electricity and Gas;
- (ii) Water Supply and Sewerage;
- (iii) Freight;
- (iv) Non-urban Passenger Transport;
- (v) Other Trading Enterprises; and
- (vi) Other Concessions.

Changes Proposed for the 2004 Review

10. The Discussion Paper CGC 2001/12, *Scope and Structure of the Standard Budget*, proposed changes to the Concessions and Other Payments group as part of restructuring of the categories covering economic activities. The Discussion Paper said that:

whilst the category structure devised for the 1999 Review reflected the underlying disabilities that [were] associated with the activities and how States provide[d] them,... they [did] not align well with the classifications in the ABS Government Finance Statistics (GFS) framework, which largely reflect industry types. As a consequence, the data on expenses have been inaccurate, especially in the Commission's 'Concessions and Other Payments' categories. (paragraph 65)

The paper proposed that the categories for the 2004 Review be defined in ways that better aligned with the purpose classification definitions in the GFS collection.

11. Table 1 compares the 1999 Review categories and those proposed in CGC 2001/12 for the 2004 Review.

12. ***State views.*** Generally, States accepted the new structure but there were some concerns. They were:

- (i) how the expenses previously included in the Other Concessions category would be assessed;
- (ii) how the expenses previously included in the Other Public Trading Enterprises category would be assessed;
- (iii) whether disabilities could be adequately assessed for Indigenous essential services within the economic activities assessment framework; and
- (iv) whether disabilities could be adequately assessed for regulatory services expenses within the economic activities assessment framework.

13. These issues are discussed in turn.

Assessment of Other Concessions

14. The discussion paper CGC 2001/12 proposed that the expenses previously allocated to Other Concessions would be re-allocated to the welfare categories — Aged and Disabled Welfare, and Other Welfare.

15. ***State views.*** Queensland and the Northern Territory supported the proposal to discontinue the Other Concessions category on the condition that disabilities currently applied to Other Concessions would continue to be assessed.

16. The ACT considered that concessions were closely linked to CSOs and should not be separated.

Table 1 COMPARISON OF CATEGORIES IN THE CONCESSIONS AND OTHER PAYMENTS, SERVICES TO INDUSTRY AND TRANSPORT FUNCTIONS 1999 REVIEW AND 2004 REVIEW PROPOSALS

1999 Review Categories	2004 Review Proposed Categories
Concessions and Other Payments	Economic Activities
Electricity and Gas	Electricity and Gas, including expenses associated with regulation of the enterprises and with services on Aboriginal communities (expenses would be primarily concessions and subsidies)
Water Supply and Sewerage	Water, Sanitation and Protection of the Environment, including expenses associated with regulation of the enterprises and services on Aboriginal communities (expenses would be primarily concessions and subsidies)
Freight Services Non-urban Passenger Transport	Non-urban Transport, including freight and passenger services, services provided by rail, water and air, expenses associated with regulation of the enterprises and services on Aboriginal communities (expenses would be primarily concessions and subsidies)
Other Trading Enterprises	Allocated across Economic Activities categories
Other Concessions	Allocated to the Welfare categories: Aged and Disabled and Other Welfare
Services to Industry	
Primary Industry	Primary Industry (including expenses associated with regulation of the industry)
Mining, Fuel and Energy	Mining, Fuel and Energy (including expenses associated with regulation of the industries)
Tourism	Tourism (including expenses associated with regulation of the industry)
Manufacturing and Other Industry	Manufacturing and Other Industry (including expenses associated with regulation of the industries)
Subsidies – Petroleum Products	Subsidies – Petroleum Products
Subsidies – Alcohol Products	Subsidies – Alcohol Products
Transport	
Urban Transit	Urban Transit (expenses would be primarily concessions and subsidies)
Roads	Roads
Regulatory and Other Services	Regulation expenses allocated to the relevant economic activity category and the rest to General Public Services.

17. *Options for assessment.* The expenses associated with the Other Concessions category are of the welfare type. The 1999 Review assessment was based on the relative number of pensioners in each State. The proposal, outlined in CGC 2001/12, to

group activities according to function means that disabilities currently assessed as part of Other Concessions will be assessed within functional categories.

18. In Discussion Paper CGC 2002/3, *Scope and Structure of the Equalisation Budget*, the Commission reiterated its intent to abolish the Other Concessions category. Issues related to the assessment of disabilities for expenses previously included in Other Concessions will be covered in Discussion Paper CGC 2002/32, *Welfare*.

Other Public Trading Enterprises

19. CGC 2001/12 proposed that the expenses included in the Other Public Trading Enterprises category and assessed on an equal per capita basis would be re-allocated to other categories.

20. ***State views.*** Queensland and the Northern Territory supported the new category structure based on the assumption that disabilities previously associated with Other Public Trading Enterprises would be captured in the assessment of other functions.

21. ***Options for assessment.*** Staff intend to recommend that expenses previously included in the Other Public Trading Enterprises category be re-allocated to the relevant Economic Activities category. It is unlikely that separate components will be required for these expenses. For example, expenses on meat marketing authorities, currently in the Other Public Trading Enterprises category, would be included in the relevant component of the Primary Industry category and assessed as considered appropriate.

Inclusion of Aboriginal Community Services

22. The proposals for the 2004 Review included incorporating expenses on Indigenous essential services into the Economic Activities categories.

23. ***State views.*** New South Wales supported the proposal. However, it was concerned that the Commission might assume that a different set of standard policies was appropriate for the assessment of relevant services to Indigenous communities in remote areas. New South Wales believed that such a standard would be unreliable because it would be based on information from only one or two States and thus highly susceptible to manipulation by those States.

24. Victoria² asked that the expenses incurred in the provision of essential services to Indigenous communities continue to be measured in a separate Aboriginal Community Services category. It said that this area of expenditure was satisfactorily picked up in the Aboriginal Community Services category. Victoria was concerned that including such expenditure in economic activities categories would both:

² In its reply to request for information on delivery of CSOs.

- (i) increase the complexity of these assessments, requiring the development of different standard policies and cost disabilities; and
- (ii) lead to a substantially greater risk of double counting.

25. Queensland was concerned that the disabilities faced in providing services to Indigenous communities may not be fully recognised if assessed as part of the economic activities categories. It said that the disabilities applicable to CSO-type expenses for Indigenous communities were significantly more complex than those applicable to the community in general. It planned to comment further once more detail regarding the proposed assessment was available.

26. The Northern Territory strongly disagreed with this proposed change. It argued that the services provided to Indigenous Communities in the Territory were significantly different from those provided by other jurisdictions. There were considerable difficulties involved in capturing all of the Territory's unique cost drivers in these services.

27. **Options for assessment.** This issue is considered in Discussion Paper CGC 2002/37, *Services to Indigenous Communities*. The discussion that follows in this paper does not deal with how Indigenous essential services would be dealt with in the Economic Activities categories.

Abolition of Regulatory Services Category

28. The Commission proposed that expenses previously included in the Regulatory Services category be included in the relevant economic activity category and in the General Public Services category.

29. **States views.** The ACT supported the proposal in principle. Its support depended upon continuation of the assessment of the disabilities assessed in the previous Regulatory and Other Services category.

30. The Northern Territory said that microeconomic reforms and NCP had lead to an increase in regulation and that some States, such as the Territory, face increased administrative scale disabilities as a result of these reforms. It was unsure whether these disabilities could be easily captured in an economic activities framework, but insisted that the Commission ensure that the related expenses and associated disabilities continue to be reflected in its assessments.

31. **Options for assessment.** In Discussion Paper CGC 2002/3, *Scope and Structure of the Equalisation Budget*, the Commission reiterated its intent to allocate expenses previously classified to the Regulatory and Other Services category mainly to the Economic Activities categories.

32. Attachment B sets out additional budget information that will be needed to decide the magnitude of regulatory expenses in the categories covered by this paper.

Proposed Treatment of SPPs

33. Attachment C sets out the Specific Purpose Payments (SPPs) the Commonwealth pays to the States and which are relevant to these categories. We propose to treat by inclusion all those that relate to services for which needs are assessed. As many of them are new SPPs or SPPs for capital purposes, we need to consider their treatment carefully. We also believe that we need to review the treatment of the payment to the ACT for the additional costs resulting from the national capital planning influences on the provision of water and sewerage to ensure there is no double counting of needs.

34. As we do not yet have all the information necessary to make informed judgements, decisions on the treatment of SPPs for these categories has been deferred. A Discussion Paper on the treatment of all SPPs will be released early next year.

PROPOSED ASSESSMENT FRAMEWORK

35. For assessment purposes, Discussion Paper CGC 2001/18 proposed that each of the categories Electricity and Gas; Water, Sanitation and Protection of the Environment; and Non-urban Transport; would have four components.

- (i) ***Services to Industry.*** General government expenses reflecting general services to industry such as administration, planning, regulation, economic development and research. This component would include expenses re-allocated from the discontinued Regulatory and Other Services category.
- (ii) ***Concession Payments.*** Those payments made for the benefit of specific sub-groups of the population (for example, pensioners).
- (iii) ***General Subsidies.*** Those payments in the nature of a subsidy made for the benefit of all users of a service (for example, supplying a minimum level of water in all inhabited areas).
- (iv) ***Cost of Capital.*** The cost of capital employed to provide a standardised level of service, including those payments that subsidise infrastructure and/or equipment relating to the delivery of services, whether or not they are explicitly identified within the functions or reflected as costs (for example, dams or gas pipelines).

36. The assessment of needs for each of these components would focus on the disabilities faced in making the payments rather than on those relevant to the direct provision of the services. To the extent that the size of the subsidies or payments is driven by differences in costs faced by service providers, they will be recognised. However, the aim is to do this in a way that achieves equalisation but is as simple as possible.

37. ***State views.*** The main issues the States raised were:

- (i) whether needs should be assessed in the General Subsidy component, and if they are, the extent to which the Commission should be using National Competition Policy (NCP) principles to help evaluate them;
- (ii) whether needs should be assessed for all general subsidies;
- (iii) how grants for capital purposes and subsidies which do not have a community service purpose should be assessed;
- (iv) the treatment of depreciation and debt charges expenses; and
- (v) how the use by the States of private public partnerships (PPPs) might influence disabilities.

NCP, General Subsidies and State Needs

38. *State views.* Victoria questioned whether needs should be assessed in relation to general subsidy payments. It doubted whether the Commission would be able to identify areas of service delivery receiving subsidies because consistent and measurable subsidies paid by States could not be clearly identified. In addition, it said that, prompted by COAG and NCP requirements, methods of service delivery continued to change, resulting in a reduction of State funding obligations as competitive pricing and full-cost recovery was achieved. This trend would become even more evident in the period covered by the 2004 Review. Victoria argued in favour of the Commission paying more attention to NCP philosophy when approaching the assessment of States' needs. It suggested the Commission be alert to instances where States fail to meet NCP requirements, and consequently discount unnecessary and inefficient infrastructure expenditure.

39. Queensland said that transparency requirements for the CSO payments it made to government owned corporations were based in legislation³ which allowed payments for electricity and non-urban transport. Transparent CSOs were also paid to local government to ensure the State Government's community service obligations were met for water and sewerage, and to private organisations for air and ferry services. Environmental protection services were provided direct by government.

40. Western Australia indicated that NCP allowed subsidies, under a public benefit test, and recent approval of subsidies for its country water supply services verified that position.

41. South Australia supported this view, arguing that NCP requirements did not exclude subsidising services. Instead, it allowed such subsidies if they were in the public benefit and made transparent, particularly where full cost recovery was unlikely to be achieved in the long term. Thus, the use of CSOs did not mean States failed to comply with NCP requirements. South Australia favoured continuing with the assessment approach adopted in the 1999 Review, with an expansion of the range of subsidies assessed.

³ *Government Owned Corporations Act 1993.*

42. *Options for assessment.* The information provided by the States indicates that they continue to subsidise the economic activities covered by this paper. For example, Victoria identified the subsidies it provides to rural rail services.

43. NCP does not preclude subsidies, as is made apparent by the following quote.

In relation to water resource policy, the Council agreed:... in relation to pricing...in general –

- (i) to the adoption of pricing regimes based on principles of consumption-based pricing, full-cost recovery and desirably the removal of cross-subsidies which are not consistent with efficient and effective service, use and provision. Where cross-subsidies continue to exist, they be made transparent;
- (ii) that where service deliverers are required to provide water services to classes of customer at less than full cost, the cost of this be fully disclosed and ideally be paid to the service deliverer as a community service obligation;...⁴

To the extent that States incur this type of expense and make it explicit in their accounts, it will be included in the budgetary data derived from GFS.

44. As the States adjust their funding arrangements to conform with their commitments under NCP, expenses (financial standards) and the services (policy standards) will change. The Commission's assessments reflect those actual expenses. Commission methods do not usually recognise artificial standards based on judgements about what the States ought to be able to achieve if NCP principles were implemented differently. Similarly, any assessment of needs should be based on a consideration of whether States face any unavoidable costs in the provision of a standard set of subsidies.

45. Subject to the outcome of the November Conference, staff intend to recommend that:

- (i) the General Subsidies component be retained because it is standard policy for States to provide such subsidies; and
- (ii) NCP efficiency criteria should not form part of its assessment approach for the 2004 Review, except to the extent that they are reflected in what States, on average, do.

⁴ Report of COAG Hobart 25 February 1994 decisions. Quoted in National Competition Council, *Compendium of National Competition Policy Agreements*, 2nd ed., June 1998, p.103

Treatment of Non-Community Service Subsidies

46. ***State views.*** The ACT said that some subsidy expenses in these economic activities categories may be in the nature of support for commercial ventures where needs were not currently assessed. It was concerned that the new structure might result in a widening of the sphere of activities for which needs were assessed. It argued that the subsidies for which needs were to be assessed should be restricted to those with a welfare purpose.

47. ***Options for assessment.*** This point made by the ACT is part of the wider argument about whether needs should be assessed in relation to economic development activities of the States. Clarity in the assessments would be aided if these expenses could be included in separate components.

48. Subject to the outcome of the November Conference, staff intend to recommend that general subsidies which have a community service objective and focus on the delivery of a benefit to individuals be included in the General Subsidies component. To the extent practical, all payments for economic development purposes (to assist industries rather than individuals) would be included in an Industry Assistance component. This component would be assessed in a manner consistent with the treatment of economic development expenses in other categories. The general approach to the treatment of economic environment development expenses is covered in Discussion Paper CGC 2002/06, *Economic Development Policies: How Should Equalisation Account for their Costs and Benefits?*

Treatment of Costs of Capital

49. ***State views.*** Queensland was in favour of an assessment of needs relating to the costs of supporting infrastructure. However, it warned of potential double counting if both capital outlays *and* CSOs which included an allowance for the depreciation of assets were included. Queensland thought it preferable that the cost of capital consumption be considered as part of the General Subsidy component and that the Cost of Capital component cover the opportunity costs of capital⁵ relating to Concessions.

50. The ACT questioned the proposal to assess disabilities for costs of capital, on the grounds that these costs were policy driven and not reflective of disabilities.

51. ***Options for assessment.*** Some of the grants or subsidies States provide to service providers support infrastructure. These can cover the cost of a new asset, the depreciation and debt charges on assets owned by the service provider and, sometimes, a return on capital on existing assets. These are often included in a general subsidy and not specifically identified as being for capital purposes. States also purchase assets to give to service providers. All these costs should be included and assessed in the same way. The need for a separate Cost of Capital Component does not seem strong.

⁵ Rate of return on assets used in service provision.

52. Staff did not intend that a CSO covering depreciation on an asset and the capital outlay on the same asset would be included in separate components. Only one would be included, depending on how States supported the capital costs of service providers. Nor are we attracted to an assessment of the opportunity cost of capital in these categories as they are not actual imposts on the budget.

53. Subject to the outcome of the November Conference, staff intend to recommend that operating expenses, including grants for capital purposes, which have a community service objective, be included in the General Subsidies component. All equivalent expenses for economic development purposes would be included in an Industry Assistance component. The Cost of Capital component would be abolished.

Treatment of Depreciation and Debt Charges

54. ***State views.*** Victoria argued that all needs relating to depreciation and debt charges should be assessed in the general depreciation and debt charges categories. Victoria considered that including depreciation and debt charges in the Concessions and CSO categories would increase the complexity of the assessments, with no apparent gain in accuracy and transparency. In the case of debt charges, the accuracy of any category-specific assessment outcome would be substantially compromised by the need to rely on judgement to determine an appropriate allocation of total debt charges to each category.

55. ***Options for assessment.*** This is a complex area. To the extent States have borrowed to purchase assets used in service provision for these categories and not passed the debt on to the providers, general government debt will include debt relating to these categories. To the extent States have retained ownership of assets used in service provision, depreciation of the assets will be included in general government depreciation.

56. Our understanding is that most depreciation and debt charges expenses now reside in the public trading enterprises and private entities providing the services covered by these categories. This is consistent with the NCP. However, in practice there will be some residual debt charges and depreciation in the general government sector.

57. In theory, needs should be assessed on the amount States need to spend in subsidising the debt charges and depreciation of service providers. To do that, all debt and depreciation expenses paid by State governments on behalf of service providers, and any subsidies made for that purpose, should be included in the standard for each economic activity category. If extensive estimation is required to achieve this, staff consider that leaving the expenses where they fall in the depreciation, debt charges and economic activities categories would be the preferred option.

58. We think it would be impossible to identify debt charges incurred by State governments on behalf of providers, so we propose to leave these expenses in the general Debt Charges category. Where the subsidies to service providers cover the debt charges incurred by them, no adjustment will be made to allocate part of the subsidies to the Debt Charges category, as estimation of that would also be very difficult.

59. For depreciation, we think it may be possible to allocate depreciation expenses incurred by the general government sector to the relevant functional categories. Subject to State views and a closer look at GFS data, we propose to add the depreciation expenses of the general government sector classified as Electricity and Gas; Water Sanitation and Protection of the Environment; and Non-Urban Transport to those categories.

Private Public Partnerships (PPPs)

60. ***State views.*** New South Wales argued that States should not be disadvantaged by the method they chose to fund and record the cost impacts of major infrastructure projects. It asked the Commission to ensure that the standards were policy neutral and accounted for the private financing of public sector infrastructure through PPPs.

61. Queensland noted that projects funded using PPPs could fall within the scope of these economic activities categories and have an impact on assessment considerations.

62. ***Options for assessment.*** To the extent that a State makes a financial contribution to a PPP, this at least will be included in the financial standards for these categories. The treatment of PPPs will be decided in the light of the further work being undertaken by the Commission following the October conference.

Summary

63. Subject to the outcome of the October and November Conferences, staff intend to recommend that an assessment framework with the following components be used for each category.

- (i) ***Services to Industry.*** General government expenses reflecting general services to industry such as administration, planning (including for industry restructuring), regulation, economic development and research. This component would include expenses re-allocated from the discontinued Regulatory and Other Services category.
- (ii) ***Concession Payments.*** Payments made for the benefit of specific sub-groups of the population (for example, pensioners).
- (iii) ***General Subsidies.*** Payments in the nature of a subsidy made for the benefit of all users of a service (for example, supplying a minimum level of water in all inhabited areas). This would include CSOs covering operating expenses of a provider (including depreciation and debt charges), capital grants and any depreciation expenses incurred directly by the general government sector.
- (iv) ***Industry Assistance.*** Payments in the nature of economic development assistance for the industry. They would include subsidies, capital grants and any depreciation expenses incurred directly by the general government sector for the prime purpose of economic development.

64. General Subsidies will be distinguished from Industry Assistance by their community service focus. Grants for capital purposes could be included in either component depending on their purpose. Depreciation expenses of the general government sector relating to these categories would be included in them, but debt charges would not.

65. The number of components included in a category will depend on the range of expense types it covers and the accuracy with which different types of expenses can be identified using GFS data. As Victoria emphasised, it is important that component weights for these categories reflect the actual distribution of State expenses. Given the expectation that the pattern of State grants for capital purposes will be irregular between States and between years, it will probably be necessary to review the weights for these categories at each update following the 2004 Review. To assist the derivation of accurate weights, we have included a request for additional information in Attachment B.

66. The rest of this paper covers the assessment issues for the categories — Electricity and Gas; Water, Sanitation and Protection of the Environment; and Non-urban Transport — setting out:

- (i) the assessment approach adopted in the 1999 Review and 2002 Update;
- (ii) a summary of the proposed changes for the 2004 Review that were presented in Discussion Paper CGC 2001/18;
- (iii) the issues raised by States in their 2004 Review submissions; and
- (iv) an appraisal of the options for assessment.

ELECTRICITY AND GAS

67. The structure used in the 2002 Update is summarised in Table 2.

Table 2 ELECTRICITY AND GAS, ASSESSMENT STRUCTURE, 2002 UPDATE

Component	Component weight	Factors	Basis of calculation
	%		
Electricity and gas services	88.00	Socio-demographic composition	Based on the numbers of persons in receipt of a Commonwealth Pension as well as numbers of persons residing in remote areas (except remote Indigenous communities).
Other subsidies	12.00	None	Equal per capita.

68. In accordance with paragraph 63 above, the preferred assessment framework for this category for the 2004 Review consists of four components:

- (i) Services to Industry;
- (ii) Concessions;
- (iii) General Subsidies; and
- (iv) Industry Assistance.

69. In the following sections we discuss the assessment for each of these components.

Services to Industry

70. ***1999 Review.*** Services to Industry expenses were not assessed separately in the 1999 Review.

71. ***CGC 2001/18 proposal.*** The expenses were considered to be head office type expenses, including scale-affected expenses that could be assessed through two disability factors:

- (i) a fixed standard level of expense factor; and
- (ii) a variable level of expense factor.

72. The second factor would require a standardised measure of demand to reflect the relative size of the task.

73. ***State views.*** Queensland suggested that, in the interests of simplicity and consistency, the assessment framework for the Services to Industry component should mirror that proposed in Discussion Paper CGC 2001/16, *Administrative Scale*, regarding fixed and variable costs.

74. ***Options for assessment.*** In the provision of Electricity and Gas services, each State has a head office (or regional offices) which provide policy advice and undertake planning, research and regulation across the full range of services. Programs are implemented and administered. The regulatory work undertaken includes:

- (i) monitoring critical factors, such as generation and network capacity and maintenance practices within the generation and network sectors; and
- (ii) audits and special investigations in response to complaints by customers

75. Staff believe that there is a basic fixed cost (scale-affected) part of the services provided by a head office, and a part which varies with the relative size of the regulation, administration and service task to be performed. This is unlike component structures used for other categories where the head office expenses not affected by scale are separated from the scale-affected costs and included in service delivery components. This

component structure has been proposed to keep these types of functions separate from payments made to, or on behalf of service providers.

76. Thus, there is a need for an administrative scale factor to reflect the needs of some States to spend more per capita than others on fixed (scale affected) costs. This would be weighted by the proportion of the component which represents fixed costs.

77. The disabilities relevant to the second part will depend on such factors as the size of the industry to be regulated, whether there is a need to provide subsidies for concessional or general purposes and the amount of restructuring needed for the industry to comply with NCP. Such disabilities could be recognised with a simple measure of the size of the industry, such as the number of providers (businesses) in the industry or the number of consumers (number of connections) per capita. Table 3 shows the calculation of a possible factor based on the number of consumers.

Table 3 SIZE OF INDUSTRY FACTOR — ELECTRICITY AND GAS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Customers – electricity ^(a) (‘000)	2 880	2 156	1 629	795	736	248	136	70	8 650
Population (‘000)	6 310	4 611	3 584	1 830	1 458	454	309	201	18 758
Customers per capita	0.45640	0.46762	0.45463	0.43424	0.50494	0.54688	0.43853	0.34806	0.46117
Factor	0.98966	1.01400	0.98582	0.94162	1.09491	1.18585	0.95092	0.75473	1.00000

(a) Gas Customers have not been included on the assumption that they are a subset of electricity customers.

Source: Electricity Supply Association of Australia Limited (ESAA). ESAA data on NSW and ACT connections are combined. ActewAGL data was used to derive the number of ACT electricity customers.

ABS 2001 Census

78. An input costs factor would also be appropriate for the Services to Industry component because the provision of these services will be affected by the costs of wages, accommodation and electricity.

79. Subject to the outcome of the November Conference, staff intend to recommend that Administrative Scale and Input Costs factors be assessed for the Services to Industry component. At this stage, we also intend to recommend that a simple size of industry factor be assessed using the number of customers per capita.

Concession Payments

80. **1999 Review.** Concession payments were assessed on the basis of the relevant population receiving concessions on services. Those in receipt of a Commonwealth pension were eligible for tariff concessions. People in remote areas (except Indigenous people in remote communities) were provided with subsidised services. These

two groups were pooled and disabilities assessed using a socio-demographic composition factor.

81. ***CGC 2001/18 proposal.*** The paper proposed that the differential impact of the costs associated with concessions payments could be based on the relevant population and, if necessary, the application of use weights to sub-sets of the relevant population based on their different propensity to use the service. The paper proposed that subsidies for services to specific locations, such as to people in remote areas, were to be assessed as part of general subsidies rather than concession payments because the basis for disabilities was different and separating the groups would allow for a more accurate assessment.

82. ***State views.*** Victoria argued that none of the methods used to assess disabilities associated with the provision of concessions in the economic activities assessments should include measures of propensity to use services, because consistent data were not available from the States.

83. Queensland and the ACT also argued against use weights, because there were limited differences between the States in the take up of the concession.

84. Western Australia argued that the cost of providing concessions to disadvantaged individuals in Western Australia was high compared to other States because of the relatively high cost of services and because harsh climatic conditions raised consumption.

85. ***Options for assessment.*** As can be seen in Table 4 and Attachment A, information provided by the States indicates that the standard policy is to provide a similar flat amount for pensioners or Commonwealth Health Care Card Holders, without distinguishing classes of eligible persons who might have different need for, and propensity to use, concessions. Generally, concessions are provided only for electricity.

86. There are some exceptions to the standard policies. Victoria provides concessions for gas; in Western Australia, pensioners in hotter climates receive additional concession payments for electricity to help run air-conditioners; the Northern Territory provides a very high level of subsidy. Some States also provide concessions for life support, hardship and drought relief. However, these do not appear to be the standard policy and are likely to have a less material impact on State budgets than the concessions for pensioners.

Table 4 CONCESSIONS PAID, ELECTRICITY AND GAS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	\$pa	\$pa	\$pa	\$pa	\$pa	\$pa	\$pa	\$pa
Concessions								
Pensioner concessions – Electricity and Gas	94	100	102	93	70	na	155	50 % of bill - up to \$365
Extras	Life support; financial hardship	Life support; Drought relief	Varies by climate region		\$10m in total	Life support		

Source: State submissions, data returns. See Attachment A of this paper, also.

87. Generally, the States define the eligible population by reference to the numbers of aged and disabled pensioners, although Victoria, Western Australia and the ACT use Commonwealth Health Care Card holders as the base.

88. Commonwealth Government *Budget Paper No 3, Federal Financial Relations 2002-03*, indicates that the Commonwealth is providing an SPP from 2002-03 to assist States broaden eligibility for electricity concessions to holders of Commonwealth Seniors Health Care Cards. Information on the number of Commonwealth Seniors Health Care Card holders in each State is available from the Commonwealth Department of Family and Community Services.

89. We propose to recommend that Commonwealth Pensioner Concession, Health Care and Seniors Health Care Card holders be used as the relevant population for this component, with no differential weight for use or cost differences. Table 5 illustrates the factor for 2000-01.

Table 5 CONCESSIONS FACTOR — ELECTRICITY AND GAS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Seniors Health Card	101 784	68 328	48 126	25 936	19 112	5 577	5 532	770	275 165
Health Care Card	477 612	417 167	339 010	167 306	134 522	54 223	17 176	24 607	1 631 623
Pensioner Concession Card	1 025 958	762 399	572 140	268 480	285 828	93 006	30 007	17 893	3 055 711
Total concession card holders ^(a)	1 605 354	1 247 894	959 276	461 722	439 462	152 806	52 715	43 270	4 962 499
Total State population ^(b)	6 309 704	4 611 398	3 584 245	1 830 189	1 458 373	453 959	309 192	200 637	18 757 697
Proportion	0.25443	0.27061	0.26764	0.25228	0.30134	0.33661	0.17049	0.21566	0.26456
Factor	0.96170	1.02288	1.01164	0.95359	1.13902	1.27234	0.64444	0.81518	1.00000

(a) As at 1st October 2002.

(b) ABS, 2001 Census.

Source: Department of Family and Community Services, Special Data Request and ABS 2001 Census

General Subsidies

90. **1999 Review.** A separate assessment was not undertaken for general subsidies. However, persons residing in remote centres were included with pensioners as part of the relevant population that was considered to have an influence on States' expenses.

91. **CGC 2001/18 proposal.** Discussion Paper CGC 2001/18 said that the Commission interpreted the standard policy as subsidising provision of services in remote areas. It proposed defining a standard measure of remoteness using population density, accessibility to the electricity grid or the Accessibility/Remoteness Index of Australia (ARIA). It then proposed applying demand (based on numbers of people or households and their use propensities) and cost weights (for reasons of the uneconomic size of delivery units, higher cost technology, wages or other inputs) to the populations in the relevant areas. Demand and cost information was sought from the States.

92. **State views.** New South Wales suggested that the Commission consider the possibility that diseconomies of large scale may be present in the delivery of services, but presented no evidence.

93. Queensland requested that the scope of the General Subsidies component be as comprehensive as possible, reflecting a standardised assessment of the services funded as general subsidies by the States. It noted that it was important for the assessments to take into account the full range of factors that influenced the amount of general subsidies required to provide an average level of service. It said that it was important to recognise the impact of socio-demographic composition and the economic and physical environment on the cost of services. It supported the cost disabilities outlined in CGC 2001/18.

94. The Northern Territory highlighted the relatively large diseconomies of small scale it faced in providing electricity services. Lacking cheaper options such as coal, the Territory uses gas and diesel to generate electricity. Full redundancy is built in to ensure services are continued when there is a failure or the need for maintenance to occur. Data were provided to substantiate the Northern Territory's higher costs and the need it had to provide a CSO for power in most areas of the Territory.

95. *Options for assessment.* As shown in Table A1 of Attachment A, no State provides direct subsidies to gas utilities, whereas most States subsidise the provision of electricity services. The focus of the subsidies is on the provision of services at reasonable cost to consumers in high cost areas. Five States have uniform tariff policies. Three of them — Western Australia, South Australia and Tasmania (for the main island) — make no explicit subsidy but allow the cost differentials between areas to be absorbed by cross-subsidy within the electricity tariff structure. New South Wales, Queensland, Tasmania (for Bass Strait Islands) and the Northern Territory provide direct operating subsidies from the budget to some operators. Victoria provides no recurrent subsidy but has provided a grant for capital purposes for regional and remote consumers (Victoria made a one-year Special Power Payment of \$118m⁶). New South Wales also plans a \$140m rural energy improvement scheme.

96. This suggests that the standard policy is to provide subsidies to service providers in high cost regions, either directly from the budget or through subsidies achieved by cross-subsidisation. Staff propose to base the standard for this component on the explicit subsidies only as this information will be readily available from GFS and is consistent with NCP.

97. Information provided by the States suggests that the higher operating costs in some regions derive from the type of technology that must be used to produce and distribute electricity. Varying technologies are used in the delivery of electricity services. These technologies are determined by the location and size of the population being serviced, rather than by State policy.

98. Efficient operation of coal-fuelled generators requires access to a very large population base. The size and length of the grid systems needed to supply customers from these generators also impacts on costs, with more densely settled and less remote areas being cheaper to supply on a per capita basis.

99. Remote communities need to employ more expensive technologies such as stand-alone diesel generators. These must have complete redundancy built in to ensure continuity of supply during times of maintenance and breakdown. The costs of transporting the fuel is also very high.

100. Costs can also be higher where the physical environment impacts on the life of capital equipment used in the delivery of the service. Lower assets lives mean higher depreciation expenses.

⁶ Victorian Response to Discussion Paper CGC 2001/18, p.14

101. The information indicates that the level of subsidies paid depends on:
- (i) the population living in areas where high cost technology must be used to generate power;
 - (ii) the spread of the population, determining the size and length of grid;
and
 - (iii) the impact of physical environment on the cost of assets.

Cost figures supplied by the Northern Territory indicate that, if the technologies applied in more remote areas were applied to highly accessible areas, the cost per unit of output in the highly accessible areas would increase two to three times.

102. The disabilities associated with the size of a subsidy could be assessed using separate factors for each of the above influences or a service delivery scale factor which applies different cost weights for populations in different regions. The weights would attempt to capture all the differences between regions in the need for subsidies. They could be measured using the difference between the average cost of providing electricity in regions defined on the basis of ARIA+⁷ and the standard uniform tariff across States. A single service delivery scale factor, rather than a range of factors, is preferred as it is likely to capture all cost differentials without double counting. It is also simpler.

103. New South Wales pays a subsidy to remote areas of about \$50 per capita and nothing in other areas. Table 6 shows the annual bills Queenslanders would need to pay in each region based on a uniform tariff (the subsidised bill) and unsubsidised tariffs. These data suggest that all regions except for the major cities receive a subsidy. The levels of subsidy suggest weights in the range of 2.3 for the highest cost remote areas to minus 0.04 for Brisbane and South East Queensland. Tasmania has reported that its generating cost on the Bass Strait Islands is over ten times higher than on the mainland. However, no indication of the extent of the subsidy has been provided. The Northern Territory's uniform tariff for domestic consumers of 16 cents per Kwh compared with a generating cost of 45 cents in remote Aboriginal communities (not including depreciation costs) suggests an average weight of 1.8, with the highest weight about 5.

⁷ Ideally, the regions would be defined in terms of the types of technology required for service provision. ARIA+ would be used as a proxy for this. Attachment D provides a map showing ARIA+ regions of Australia.

Table 6 QUEENSLAND – ELECTRICITY TARIFFS BY REGION

Region	Annual Bill Uniform Tariffs	Annual Bill Removal of Uniform Tariffs	Implied Subsidy Weight
	(a)	(b)	(b)/(a) -1
	\$	\$	
SEQ	740	714	-0.04
SEQ– Coastal	740	846	0.14
SWQ – Remote	740	1 606	1.17
Wide Bay	740	728	-0.02
Mackay - Coastal	740	870	0.18
Mackay - Remote	740	2 017	1.73
CQ - Coastal	740	772	0.04
CQ - Remote	740	1 197	0.62
NQ - Coastal	740	873	0.18
NQ - Remote	740	2 472	2.34
FNQ - Coastal	740	1 046	0.41
FNQ - Remote	740	2 354	2.18

Source: Queensland Submission.

104. Subject to the outcome of the November Conference, staff intend to recommend that a service delivery scale factor be adopted for the assessment of general subsidies for Electricity and Gas Services. The factor would be based on States' total populations, with a cost weight applied to populations in different regions. Data provided by States will indicate the appropriate weight to apply.

105. At this stage, a weight of about 2 for very remote area populations seems consistent across States that have provided data. Weights for other regional and remote areas also appear to be justified. Table 7 shows a possible approach to the calculation of the factor using 1996 Census data and weights derived from Queensland's information. This approach assumes that only populations outside major cities should be taken into account in calculating a need for subsidies.

106. States are asked to comment on this proposal and to provide data to assist in the derivation of Australian standard weights.

107. Ideally, regions defined in terms of the types of technology and other features (length of grid) required for service provision should be used instead of ARIA+. State suggestions on how this might be achieved would be helpful.

108. If States have a capacity to raise revenue from providers, that is, an ability to obtain more than a standard rate of return, then that revenue raising capacity would need to be assessed on the revenue side of the budget.

Table 7 CALCULATION OF SERVICE DELIVERY SCALE FACTOR —
GENERAL SUBSIDIES, ELECTRICITY AND GAS

Region	Weight	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
State Population ('000)										
Major city	0	4 489	3 390	1 864	1 277	1 044	0	308	0	12 373
Inner regional	0.2	1 299	967	920	217	180	289	0.76	0	3 872
Outer regional	0.5	475	249	645	176	173	154	0	106	1 979
Remote ^(a)	1	38	6	97	97	45	9	0	44	335
Very remote ^(a)	2	8	0	58	63	16	3	0	50	199
Total		6 310	4 611	3 584	1 830	1 458	454	309	201	18 758
Weighted population		552	323	720	355	200	148	0.15	198	2496
Per Capita		0.08754	0.07013	0.20082	0.19370	0.13736	0.32684	0.00049	0.98482	0.13309
Factor		0.65772	0.52694	1.50892	1.45539	1.03208	2.45576	0.00367	7.39964	1.00000

(a) If expenses on essential services provided to Indigenous communities are not included in this category, the population living in such communities would need to be deducted from these totals.

Source: Regional classifications: ABS, Outcomes of ABS Views on Remoteness Consultation 1244.0.00.001, 2001, Population: ABS, 2001 Census data.

Industry Assistance

109. **1999 Review.** The 1999 Review assessment did not specifically refer to Industry Assistance. However, such expenses were grouped with other, non-welfare concession payments as a component titled 'Other Subsidies'. This component also contained transitional subsidies due to industry restructuring. It was assessed by the equal per capita method.

110. **Options for assessment.** Issues related to the assessment of these payments in the 2004 Review are outlined in Discussion Paper CGC 2002/6, *Economic Development*. Any decision the Commission makes in relation to the assessment of economic development will be applied in the assessment of the industry assistance for the Electricity and Gas; Water, Sanitation and Protection of the Environment; and Non-urban Transport categories.

Assessment Structure

111. The assessment structure proposed for Electricity and Gas is outlined in Table 8.

Table 8 ASSESSMENT STRUCTURE PROPOSED FOR THE 2004 REVIEW — ELECTRICITY AND GAS

Component	Component weight	Factors	Basis of calculation
	%		
Services to Industry	XX	Administrative scale	General method, weighted to apply to scale affected expenses.
		Size of task	No. of providers or customers per capita.
		Input costs	General method with weights of XX% for wages, X% for accommodation and X% for electricity.
Concession Payments	XX	Socio-demographic composition	Based on the proportion of people who have a Commonwealth Health Care Card, a Senior Health Care Card or a Pensioner Card.
General Subsidies	XX	Service delivery scale	A cost weight applied to State populations by region.
Industry Assistance	XX	To be decided.	As for Economic Development.

WATER, SANITATION AND PROTECTION OF THE ENVIRONMENT

112. The Water Supply and Sewerage assessment structure used in the 2002 Update is summarised in Table 9.

113. In accordance with paragraph 63 above, the proposed assessment framework for this category for the 2004 Review consists of four components:

- (i) Services to Industry;
- (ii) Concessions;
- (iii) General Subsidies; and
- (iv) Industry Assistance.

114. In the following sections we discuss the assessment for each of these components.

Services to Industry

115. **1999 Review.** Services to Industry expenses were not assessed separately in the 1999 Review.

Table 9 ASSESSMENT STRUCTURE, WATER AND SEWERAGE, 2002 UPDATE

Component	Component weight	Factors	Basis of calculation
	%		
Non-urban deficit subsidies	52.35	Input costs	General method with weights of 40% for wages, 2% for accommodation and 1% for electricity.
		Interest rate	General method.
		Physical environment	Based on data of surface and groundwater resources, climatic conditions and water consumption by River Drainage Basin.
		Socio-demographic composition	Based on the number of people in each State residing outside urban centres of population greater than 50 000.
Industry assistance	24.93	None	Equal per capita.
Pensioner concessions	22.44	Socio-demographic composition	Based on the number of Commonwealth pensioners in each State's population.
Land rights	0.05	Land rights	General method.
Isolation	0.23	Isolation	General method.

116. **CGC 2001/18 proposal.** As for the Electricity and Gas assessment, it was suggested in Discussion Paper CGC 2001/18 that these expenses were considered to be head-office type expenses that could, in the future, be assessed through two disability factors:

- (i) a fixed standard level of expense factor; and
- (ii) a variable level of expense factor.

117. The second factor would require a standardised measure of demand to reflect the relative size of the task.

118. **State views.** South Australia agreed that the component needed an administrative scale factor, arguing that it incurred high costs administering Commonwealth SPP programs, such as the National Heritage Trust. Tasmania did not support the input cost assessment.

119. **Options for assessment.** Administrative scale, size of the task and input costs factors are relevant to the assessment of this component for the same reasons that were outlined under the Electricity and Gas assessment.

120. States provide a regime which develops policies, undertakes planning, and regulates land and water managers and users, and the prices charged by water businesses, including the provision of subsidies. A factor which indicates the relative policy-neutral size of this task in each State is difficult to devise. Again, the number of businesses

involved in the industry or the number of domestic connections per capita would be simple measures of need. Unfortunately, the nature of environmental conditions, the environmental problems in each State and the need for subsidies probably also have an influence on the size of the task. Table 10 shows the calculation of a simple factor using the number of non-metropolitan local government areas (because water and sewerage services in non-metropolitan areas are usually centred on respective local government areas) plus the number of metropolitan water and sewerage authorities.

Table 10 SIZE OF INDUSTRY FACTOR — WATER, SANITATION AND PROTECTION OF THE ENVIRONMENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
No of businesses ^(a)	146	66	160	118	53	32	1	68	644
Total pop ('000)	6 310	4 611	3 584	1 830	1 458	454	309	201	18 758
No of businesses per '000 population	0.02314	0.01431	0.04464	0.06447	0.03634	0.07049	0.00323	0.33892	0.03433
Factor	0.67397	0.41687	1.30022	1.87793	1.05852	2.05318	0.09420	9.87169	1.00000

(a) Based on the number of non-metropolitan LGAs, plus the number of metropolitan water authorities.

Sources: National Office of Local Government, *1999-2000 Report on the Operation of the Local Government (Financial Assistance) Act 1995*.

ABS, 2001 Census.

Concession Payments

121. ***1999 Review.*** The concession payments assessment was based on the number of Commonwealth pensioners in each State's population. No use weights were applied to sub-sets of this relevant population.

122. ***CGC 2001/18 proposal.*** The paper proposed that the differential impact of the costs associated with concessions payments could be calculated by applying use weights to sub-sets of the relevant population. These use weights were to be determined by the propensities of different sub-sets of the relevant population to use services.

123. ***State views.*** South Australia and Tasmania said that the relevant population should be based on the numbers of Commonwealth pensioners.

124. The Northern Territory argued that where pensioners were consuming a higher volume of water than pensioners in other jurisdictions, the concession payments would be relatively large compared to other jurisdictions.

125. ***Options for assessment.*** Information provided by States indicated that pensioners, or pensioner households, in each State received a fixed amount of subsidy, up to a maximum. The amount varies across States but the standard amount seems to be about \$100 per pensioner. Under the common policy of the States, concession payments are capped so that they are not affected by excessive water consumption or differences in the cost of supplying water. Table 11 summarises the data for each State. It suggests that Tasmania has a more generous policy than the other States. However, the standard policy

seems to suggest that differential use or cost weights by different parts of the pensioner population living in different regions of States are not required.

Table 11 CONCESSIONS PAID, WATER AND SEWERAGE

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	\$pa	\$pa	\$pa	\$pa	\$pa	\$pa	\$pa	\$pa
Concessions								
Pensioner concessions	88	135 ^(a)	180	100 ^(a)	185 ^(a)	300 ^(a)	na	100
Extras – Community Organisations		260			Yes		Yes	

(a) Per household, maximum.

Source: State submissions, data returns. See Attachment A to this paper.

126. Commonwealth Government Budget Paper No 3, *Federal Financial Relations 2002-03*, indicates that the Commonwealth is providing an SPP from 2002-03 to assist States broaden eligibility for water and sewerage to holders of Commonwealth Seniors Health Care Cards. Information on the number of Commonwealth Seniors Health Care Card holders in each State is available from the Commonwealth Department of Family and Community Services. As for the Electricity and Gas category, we propose to use the total number of Commonwealth Pensioner, Health Care Card and Seniors Health Care Card holders as the indicator of need for concessional expenses. Table 5 illustrates what this disability factor might look like.

General Subsidies

127. **1999 Review.** In the 1999 Review assessment, general subsidies represented about 52 per cent of the standard. Apart from input costs and interest rate factors, two population-based factors were assessed for the subsidies component:

- (i) a physical environment factor was calculated by weighting State populations in different major river catchments to reflect the additional costs of extracting and treating groundwater in those catchments, and the additional costs of piping water to locations distant from water sources; and
- (ii) a socio-demographic composition factor which was based on the proportions of total population in each State residing outside urban centres with populations of 50 000 or more.

128. **CGC 2001/18 proposal.** The discussion paper noted that payments within this component were most likely to be expenses on:

- (i) the protection of the environment — particularly water resources; and
- (ii) subsidies for the provision of water and sewerage in arid or remote areas.

129. It noted that a separate assessment could be required for the protection of the environment expenses and that both demand and cost disabilities could be required to reflect the use of water and sewerage services by population in arid and remote areas, and the cost of delivering those services because of service delivery scale, technology and other general cost considerations.

130. *State views – protection of the environment.* Victoria, Western Australia and South Australia argued strongly that the relative water resource protection costs incurred by State governments should be assessed. They presented strong evidence during their work place discussions to suggest that they are confronting a range of environmental problems which are impacting heavily on their budgets. These States have agreed to assist the Commission in better understanding these needs which relate to water resource management and environmental degradation remediation for both agricultural and domestic consumers.

131. Victoria reported that most water resource management expenses for both domestic and agricultural use are classified to GPC code 2728 Other Water Supply. If this is the case in other States, it will not be possible to separately assess needs relating to domestic and agricultural use.

132. Queensland and South Australia drew our attention to the fact that protection of the environment is wider than water resource management. Queensland's Environmental Protection Agency is responsible for sustainable environmental management including clean air, noise amenity, healthy waterways, efficient waste management and conservation of natural assets. Queensland noted the sensitivity of its environment and the importance of environmental protection (for example of the Great Barrier Reef) to the tourism industry. The costs relating to these functions are presumably included in the GPC code 2739 Other Sanitation and Protection of the Environment.

133. It seems it is not a simple matter of undertaking the assessment of environment protection as part of the General Subsidy component of this category. The questions are:

- (i) should all protection of the environment expenses be assessed in a separate component in this category; or
- (ii) should protection of the environment expenses on domestic water supplies be part of the general subsidy for water provision; and
- (iii) should similar expenses on protecting agricultural water supplies and other industry (such as tourism) be considered economic development expenses and included in the Industry Assistance component?

134. Staff need to discuss this issue with States at the November Conference. We need to better understand the expenses incurred by States, where they are classified in GFS, their purpose and how needs would appropriately be assessed. We are inclined to recommend that the protection of resources for both domestic and agricultural purposes be assessed as part of the general water and sewerage subsidy component because protection of

the water resource is to the benefit of all. We are not certain of the materiality of the other environment protection functions and propose an equal per capita assessment of them.

135. *State views – general subsidies.* Victoria commented that a differential assessment for subsidies was not necessary because of the move to full cost-recovery by water authorities. Western Australia and South Australia disagreed, arguing as discussed earlier that not all States were moving to full cost recovery and that this was permissible under NCP.

136. South Australia supported the updating or continuation of the 1999 Review assessment, arguing that despite the limitations, the factors gave a realistic outcome.

137. As for Electricity and Gas, Queensland supported the approach proposed in CGC 2001/18 and argued that the assessment should capture the full range of factors that influenced costs. This was because these factors would influence the level of CSOs required to provide an average level of service.

138. The specific issues raised and information provided by States related to:

- (i) remoteness;
- (ii) community size;
- (iii) water quality;
- (iv) water availability;
- (v) sewerage disposal; and
- (vi) the impact of physical environment on asset life and interest rates.

139. On *remoteness*, Queensland, Western Australia, South Australia, Tasmania and the Northern Territory cited services to remote communities as requiring subsidies.

140. On *community size*, Queensland, Western Australia, South Australia, Tasmania and the Northern Territory said that services to smaller communities required subsidies for a range of reasons.

141. Tasmania supported the inclusion of a disability assessment based on the population outside larger urban centres. It said that the costs of water, sanitation and environmental protection services in the larger metropolitan centres could be fully recovered on a user pays basis so that State governments only need to incur costs for services to small rural population centres.

142. Western Australia said that low economies of scale (reflecting low customer densities) for water and sewerage infrastructure servicing hundreds of small towns and communities spread over a vast geographic area contributed to the cost.

143. On *water quality*, Queensland, Western Australia, South Australia and the Northern Territory indicated that low water quality added to the cost of water supply.

144. Western Australia indicated that the quality of some local/regional water supplies was marginal, and required expensive treatment to meet drinking water standards (that is, to ensure compliance with the 1996 Australian Drinking Water Guidelines). It suggested that the Commission use the Commonwealth Government's distribution of funds under the *National Action Plan for Salinity and Water Quality* guidelines as a measure of needs.

145. South Australia indicated that most of South Australia suffers from poor water quality, necessitating extensive treatment to reach health standards — the salinity and other problems of the River Murray have been well documented.

146. On *water availability*, Western Australia, South Australia and the Northern Territory indicate that low availability of water added to the cost of water supply.

147. Tasmania argued that the cost of water supply represented only a relatively small proportion of the total expenses because water supply costs were more easily recovered than sanitation costs. As a result, Tasmania suggested that the current physical environment factor, which related to water supply cost, should either be discounted or applied to a smaller proportion of the expenditure component.

148. On *sewerage disposal in fragile environments*, Queensland and South Australia indicated that the need for sewerage disposal near or in fragile environments added to the cost of service. Queensland said that the proximity of the Great Barrier Reef added to its cost of sewerage treatment.

149. South Australia indicated that fragile environments included residential water supply catchments. It said that the assessment structure should be able to account for disabilities relating to the costs of sewerage treatment in urban, as well as non-urban, locations. It said that Adelaide's sewerage treatment cost is relatively high because of its location on a sheltered marine environment and because of saline water intrusion.

150. On *the impact of physical environment on asset life*, Queensland said that tropical environments increased subsidies because climate influenced asset life and thus depreciation costs.

151. On *interest rates*, South Australia argued that this factor was necessary to allow for relative influence of debt charges on the levels of subsidy paid.

152. ***Options for assessment.*** The States have suggested a wide range of non-policy influences on the cost of water and sewerage services. The key assessment question is the extent to which these influences affect the levels of subsidy which each State would provide if standard policies operated. From the information provided by the States, summarised in Attachment A, it appears that subsidies are most commonly provided for water users in non-metropolitan areas. This sets the boundaries for the assessment of disabilities.

153. Influences affecting the cost of provision of metropolitan services, such as the effects of salinity on water quality and of fragile environments on the costs of metropolitan sewerage disposal, would therefore be beyond the scope of the assessment.

That is unless a State could demonstrate that it has a unique disability which is not experienced by other States. We do not reject this as a possibility, but have not developed how we might assess such a need. State views are sought.

154. From the information provided by the States, it appears that subsidies are not targeted to specific elements of the operating costs of water and sewerage in non-metropolitan areas. They are aimed at keeping costs for consumers at a reasonable level. On this basis, subsidy levels will reflect either:

- (i) the standard difference between the cost of providing the service and a standard metropolitan cost; or
- (ii) a range of factors contributing to that difference:
 - costs associated with the provision of services to small population centres (service delivery scale);
 - technology required in different areas because of differences in the availability or quality of water, and discharge environments;
 - population dispersion;
 - input costs;
 - differences in interest rates; and
 - physical environment affects on rates of depreciation of assets.

155. Using the data provided by Queensland, Western Australia and South Australia (Tables A8 and A9 and Paragraph 25 of Attachment A) to derive standard weights, it appears that costs of providing water and sewerage in country areas are about twice those in metropolitan areas. Table 12 illustrates the calculation of a factor based on all country area populations. This is based on the assumption that no subsidy is required in metropolitan areas and a subsidy equal to the cost in metropolitan areas is required in non-metropolitan areas. It is presented for illustrative purposes only.

156. The results of this factor calculation do not meet a reasonableness test. It is unlikely that Tasmania has greater disabilities than South Australia. It is likely that the ARIA+ classification of population does not match the locations where water and sewerage costs are high. The factor calculation could be refined if all States were able to provide data such as that provided by Queensland, showing costs for centres of various sizes, and ABS population data classified by Urban Centre Locality.

Table 12 PHYSICAL ENVIRONMENT FACTOR— GENERAL SUBSIDIES, WATER, SANITATION AND PROTECTION OF THE ENVIRONMENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	Population ('000)								
Country Population ^(a)	522	254	800	336	234	165	0	201	2 512
Total Population	6 310	4 611	3 584	1 830	1 458	454	309	201	18 758
Country population per capita	0.08268	0.05518	0.22320	0.18369	0.16074	0.36324	0.00000	1.00000	0.13393
Factor	0.61731	0.41199	1.66650	1.37149	1.20018	2.71213	0.00000	7.46646	1.00000

(a) Defined using ARIA+ classifications as Outer Regional, Remote and Very Remote area populations.

Source: ABS, 2001 Census.

157. For example, the more specific influences listed above could be measured in a more comprehensive way. State urban and rural populations defined according to the ABS Urban Centre Locality (UCL) classification could be used as the basis of a factor, probably best described as a physical environment factor. The disabilities which could be taken into account using urban and rural populations would include relevant population, community size, water quality, water availability and sewerage disposal in fragile environments.

158. Based on the coverage of the subsidies commonly provided by the States, the service or relevant population for this component is the non-metropolitan population of each State.

159. If it is established that there are additional non-policy costs associated with the provision of water to smaller centres, disabilities associated with community size can be assessed by applying a higher cost weight for populations in centres of smaller size. Queensland's data in Table A8 indicate that there are.

160. The States have made the case that high salinity means poorer water quality, extra treatment is required and this adds to the cost of supply. The information from States indicates that high salinity occurs not only in many sources of bore water but also where there are shallow water tables and in supply from the lower reaches of the River Murray. If our investigations establish the existence of additional costs, the disabilities associated with water quality can be assessed by applying a cost weight to the populations located in these areas. The cost weight would be derived as the average additional cost required to bring water to standard quality.

161. Disabilities associated with water availability can be assessed, if our investigations establish the existence of additional costs, by applying a cost weight to populations that use bore water and water piped over long distances. The cost weight would be derived as the average additional cost associated with accessing water by bores and long distance pipes, over the costs associated with the standard access to water.

162. States have made the case that where sewerage needs to be disposed of near or in fragile environments, extra costs of treatment are incurred because these areas cannot

take advantage of the cheaper treatment options provided by the use of deepwater ocean outfalls. Areas where it is claimed that additional costs are incurred for this reason include:

- (i) coastal regions adjacent to marine parks; and
- (ii) coastal regions adjacent to relatively still water environments.

163. Staff seek further information from the States on whether inland areas experience similar problems. We note that allowance is made in Commonwealth grants to the ACT for the additional costs involved in treating sewerage because of the ACT's location near the headwaters of a major river system⁸. The disabilities associated with the need for sewerage disposal near or in fragile environments could be assessed by applying a cost weight to the populations in affected areas. The data required to measure the cost weights are the average costs of sewerage disposal near or in fragile environments, compared with the average cost of sewerage disposal in non-fragile environments.

164. In summary, a physical environment factor would be based on the States' non-metropolitan populations with, potentially, cost weights applied to four sectors of the urban and rural sub-populations. The number of cost weights applied to any population group would depend on the characteristics of the area in which that population resides.

165. Because it can be expected that there is a high correlation of disabilities due to community size, water quality and water availability, it may prove difficult to measure the specific cost weights. In any case, States may not be able to provide data on costs associated with services to specific regions disaggregated by basis of disability. If this is the case, we would need to fall back on the broad approach to the calculation of a factor outlined above.

166. **Conclusion.** Subject to the outcome of the November Conference, staff intend to recommend that a comprehensive physical environment factor be attempted for the assessment of general subsidies for Water, Sanitation and Protection of the Environment. At the very least, this factor would reflect the relative proportions of each State's population in non-metropolitan areas but, depending on the outcome of further research, it could include up to four cost weights applied to affected sectors of the non-metropolitan population.

Industry Assistance

167. As already discussed under Electricity and Gas, staff intend to recommend that decisions made in relation to Discussion Paper CGC 2002/6, *Economic Development*, be applied in the assessment of the industry assistance for Electricity and Gas; Water, Sanitation and Protection of the Environment; and Non-urban Transport.

⁸ Commonwealth Grants' Commission, *Second Report on Financing the Australian Capital Territory, Working Papers*, vol .1, July 1986, pp173-5, indicated that the ACT incurred a disability of \$7.3m arising from the inland location of Canberra and the consequent need for a relatively high standard of sewerage treatment.

Land Rights and Isolation

168. These factors were assessed in the 1999 Review and, if staff research shows them to be still relevant, we will recommend that the Commission continue to assess them for the 2004 Review.

Assessment Structure

169. The proposed assessment structure for Water, Sanitation and Protection of the Environment is outlined in Table 13.

Table 13 ASSESSMENT STRUCTURE PROPOSED FOR THE 2004 REVIEW — WATER, SANITATION AND PROTECTION OF THE ENVIRONMENT

Expenses component	Component weight	Factors	Basis of calculation
	%		
Services to Industry	XX	Administrative scale	General method, weighted to apply to scale affected expenses.
		Size of Industry	Number of businesses or connections per capita.
		Input costs	General method with weights of XX% for wages, X% for accommodation and X% for electricity.
Concession Payments	XX	Socio-demographic composition	Based on the proportion of people who are disability pensioners plus Commonwealth Seniors Health Care Card holders.
General Subsidies	XX	Physical environment	Based on the cost-weighted country population of each State.
Industry Assistance	XX	To be decided.	As for Economic Development.
Land rights	XX	Land rights	General method.
Isolation	XX	Isolation	General method.

NON-URBAN TRANSIT

170. In the 1999 Review, expenses proposed for inclusion in the Non-urban Transport category for the 2004 Review were assessed in two separate categories: Freight Services and Non-urban Passenger Transport. These two assessments are shown together in Table 14. The new category will include not only subsidies relating to freight and non-urban passenger rail and bus transport but also subsidies for non-urban air and water transport

171. **1999 Review.** In the 1999 Review, the assessment treated non-urban passenger transport services as one component and did not distinguish between costs of service to industry, concession payments and subsidies. The assessment was composed of factors for the relative number of concession holders, input costs and interest rates. In addition to the normal input costs of wages, accommodation, and electricity, an additional input cost factor was included to account for the difference in diesel costs in capital cities. This was given a 7 per cent cost weighting for the assessment.

172. The Commission concluded that it was standard policy of governments to run freight services on a cost recovery basis. It concluded that any differences in State government expenses on freight services were due to policy relating to industry assistance and development. An EPC assessment was adopted.

Table 14 ASSESSMENT STRUCTURE, NON-URBAN TRANSPORT, 2002 UPDATE

Expenses component	Component weight ^(a)	Factors	Basis of calculation
	%		
Passenger transport services	43.15	Input costs	General method with weights of 50% for wages, 2% for accommodation, 1% for electricity and 7% for fuel.
		Interest rates	General method.
		Socio-demographic composition	Based on mean resident population with a weight of 2 for persons living in non-metropolitan areas and an additional weight of 2 for recipients of pensions and for those aged 11 to 18.
Freight	56.85	None	Equal per capita.

(a) The component weights are based on the gross standard used for the two separate categories Freight Services and Non-urban Passenger Transport in the 2002 Update.

173. **CGC 2001/18 proposal.** The paper proposed combining the assessments of freight and non-urban passenger services on the basis that they shared the same infrastructure, particularly rail. It also proposed that needs be assessed for services to industry, concessional travel for non-urban passengers and general subsidies for non-urban passengers and freight, both for operational and infrastructure purposes. The paper noted that at least some States now provided subsidies for freight and air travel.

174. In accordance with paragraph 63 above, the proposed assessment framework for this category for the 2004 Review consists of four components:

- (i) Services to Industry;
- (ii) Concessions;
- (iii) General Subsidies; and
- (iv) Industry Assistance.

175. In the following sections we discuss the assessment for each of these components.

Services to Industry

176. **Options for assessment.** In the provision of non-urban transport services, each State operates basic structures that provide policy advice across the full range of services, and administers and implements those policies. Planning and regulatory services are also provided. As for the two other categories discussed in this paper, we are proposing to recommend the assessment of three factors:

- (i) administrative scale to apply to the scale affected component of head office expenditure;
- (ii) an input costs factor calculated according to the general method which measures the differential impact of the costs of labour, office accommodation and electricity inputs⁹; and
- (iii) a size of task factor measured by the number of businesses per capita or the non-urban population per capita (see Table 15).

Table 15 SIZE OF TASK FACTOR — NON-URBAN TRANSPORT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	Population ('000)								
Non-urban population ^(a)	2 297	1 235	1 880	482	382	270	0.4	109	6 656
Total population	6 039	4 374	3 369	1 726	1 428	460	299	195	17 889
Non-urban population per capita	0.38045	0.28247	0.55804	0.27911	0.26758	0.58677	0.00132	0.56052	0.37207
Factor	1.02250	0.75917	1.49982	0.75015	0.71915	1.57703	0.00355	1.50647	1.00000

(a) Population excluding centres of 50 000 or more.

Source: ABS 1996 Census

Concession Payments

177. **CGC 2001/18 proposal.** The paper proposed that the assessment for the concessions component would apply to passenger services only (as no concessions apply to freight) and would be based on the numbers of pensioners plus persons aged 11-18 years. It said that propensity to use services and relative cost factors would be considered.

178. **State views.** South Australia supported an assessment for concessions based on pensioner numbers and the population aged 11-18 years.

⁹ There is no need for the additional element for fuel, which was included in the previous assessment, because fuel cost differences relate specifically to general subsidies, rather than to Services to Industry.

179. Tasmania suggested that the assessment recognise all school age children up to and including college age (as opposed to just 11 to 18 year olds) and pensioners and unemployed persons (as opposed to just pensioners). It also suggested that the revised assessment should recognise, as the current method does, the higher demand from people living in non-metropolitan areas. It noted that the utilisation of non-urban services by people in urban areas would be minimal.

180. The ACT believed that it was appropriate to continue to assess concession payments, but that the assessment needed to be based on the proportion of persons in possession of a Commonwealth Health Care Card.

181. *Options for assessment.* Separating concession payments from other expenses will allow a more targeted assessment of States' disabilities.

182. Information from States indicates that the holders of a Commonwealth Health Care Card, as opposed to pensioners, are eligible for concession travel. The assessment can be adjusted accordingly, as these figures are available from the Commonwealth Department of Family and Community Services.

183. Eligibility for a Health Care Card is at 16 years of age. Consequently, to avoid double counting when adding the 11 to 18 year old population, the numbers of HCC holders will need to be adjusted to remove HCC holders aged 16-18 years.

184. The Transport of Rural School Children assessment covers travel to and from schools. Including the 11-18 year old population in the service population for non-urban transport is intended to cover journeys other than daily journeys to and from schools. The 1999 Review assessment assumed that journeys not associated with attendance at school would be minimal for children aged under 11 years. Staff intend to continue this assumption for the 2004 Review assessment.

185. State information also suggests that the level of concession is similar for all those eligible. It does not differ by type of concession (pensioner or student). Victoria pays 25 per cent of the full adult fare to operators (which offer a 50 per cent discount to concession holders) and Tasmania pays 35 per cent. Queensland reports that its concession holders receive a 50 per cent discount off the usual adult fare, but does not say whether it subsidises this in full.

186. Staff propose to divide the concession population on the basis of their urban and non-urban residential status. This information is available from the Commonwealth Department of Family and Community Services. Information provided by Queensland for the 1999 Review indicated that country travellers were twice as likely to use non-urban transport services as were urban users. We propose to continue to use this weight unless States can provide more up to date data.

187. ACT residents use of the New South Wales non-urban rail system and the cost of concessional travel by these residents falls on New South Wales. We can account for this in the assessment by either:

- (i) applying a separate cross-border factor; or

- (ii) adjusting the relevant population figures for New South Wales and the ACT in the concessions component.

The second method would be simpler.

188. Which ever approach is adopted, it will be necessary to decide whether the ACT population's propensity to use non-urban services in New South Wales is akin to that of non-metropolitan or metropolitan populations.

189. In general terms, we have assumed non-metropolitan populations use non-urban transport services at a higher rate than metropolitan populations because their travel is for both recreation and accessing essential services, whereas travel by metropolitan residents on non-urban transport services is largely for recreational purposes. We have assumed that the ACT use would be weighted towards recreational travel. On this basis we propose to assume that the ACT propensity to use the service is equivalent to that of a metropolitan population.

190. Subject to the outcome of the November Conference, staff intend to recommend that the assessment of disabilities applicable to the Concessions component be based on the States' respective proportions of persons holding a Commonwealth Health Care Card, including a Senior's Health Care Card but excluding HCC holders aged 16-18, and the total population aged 11-18 years. This population will be divided on the basis of their urban and non-urban residential status, with non-urban residents weighted by two. No cost weights for the different concession groups will be applied as information from the States suggests that the same subsidy is provided. For the purpose of this assessment, the concession population of the ACT will be transferred to the New South Wales metropolitan concession population.

General Subsidies

191. ***CGC 2001/18 proposal.*** The discussion paper proposed that the assessment might require the calculation of factors based on:

- (i) the size of the relevant population combined with use weights based on propensity of groups within that relevant population to use services;
- (ii) a service delivery scale effect on the provision of services — if population density is relevant to the level of subsidy;
- (iii) cost weights due to differences in the cost of providing the subsidy — if the cost of a subsidy on air or water transport is higher per capita than for rail or bus, or for passengers or freight; and
- (iv) general cost disabilities like input costs (wages and salaries, fuel etc.), and elements of the dispersion factors (eg locality allowances).

192. ***State views.*** All States, except South Australia and ACT, indicated that they subsidised non-urban transport services — both passenger services and freight. Both operating subsidies and assistance with infrastructure are provided. Only three States —

Queensland, Western Australia and the Northern Territory — provide subsidies for air travel and four subsidise water transport for other passenger travel or freight. States indicated that the subsidies were for general deficit funding of non-economic, but socially beneficial services. The subsidies were necessary to keep the cost of travel (and travel times) at acceptable levels.

193. New South Wales noted that the financial support of rail freight was vital to the rural economy. Victoria stated that it provided a light rail general freight service to rural and remote areas and also provided some free services to charitable organisations. Current CSO payment for the Victorian service were \$5.8 million per annum (excluding GST). Both States also subsidise access to rail infrastructure.

194. Queensland argued that needs for subsidies for water transport and air services should be assessed in the proposed Non-urban Transport category because these services are provided to enable access to essential services for people living in remote areas.

195. South Australia argued that the commercial nature of freight meant that no disability assessment should be applied. It supported an equal per capita assessment of the Freight component, with the exception that ACT have zero standardised expenditure for freight. It argued that assessing the ACT as having needs for non-urban transport services would confer an unwarranted benefit on the ACT.

196. Tasmania suggested that, if the Commission is to take into account rail infrastructure expenses not recovered, then it also needed to consider air and water transport services where the infrastructure costs were not fully recovered. It requested that the Commission consider all forms of transport, as some forms are not an option for all States.

197. The ACT argued that a differential assessment for general subsidies for Non-urban Transport was not considered appropriate because the provision of public transport in the area of rail is moving to a higher level of competition.

198. **Options for assessment.** Information provided by States indicates that water, air, bus and rail services are subsidised for passengers and freight alike. The information provided by States is summarised in Attachment A. The States that still have significant rail services provide subsidies for those services to rural areas. The States that have large remote areas also provide subsidies for air and water transport. These subsidies are said to be for essential services that could not otherwise operate at a normal commercial rate of return.

199. Staff conclusions are:

- (i) all States subsidise passenger transport in non-urban areas;
- (ii) most States subsidise freight (rail and shipping) in rural areas;
- (iii) the States with the largest remote areas subsidise air travel;
- (iv) States where water provides a barrier subsidise ferry services; and
- (v) needs should be assessed in relation to all of these standard policies.

200. The questions we still have are:

- (i) what is the relative standard cost per head of relevant population of each of these subsidies;
- (ii) can available information be used to weight the relevant population in an appropriate way;
- (iii) is it possible to develop a service delivery scale factor which weights:
 - the population residing in centres of 50 000 or more by one;
 - those outside centres greater than 50 000 people (which is the relevant population for the Urban Transit assessment) by two;
 - the rural component of the latter by an additional amount to reflect the need for freight subsidies;
 - the very remote component (defined by ARIA+) by an additional amount to allow for air subsidies; and
 - those living on islands by a further small additional amount?

201. If this assessment approach is adopted, there will be no need to include separate input cost or dispersion factors, because the influence of differences in costs would be covered by the cost weights included in the composite factor.

202. Subject to the outcome of the November Conference, staff intend to recommend that this is the approach to be explored.

Industry Assistance

203. Industry assistance may include the developmental costs of extending the rail network (such as the Alice Springs to Darwin railway, or the Mandurah to Perth rail link). It could also be argued that subsidies for freight are providing assistance to industry. If the Commission judges this to be the case, then they will not be assessed in the General Subsidies component but in this component. All assistance to industry with an economic development focus will be treated in the same way as all economic development expenses.

Assessment Structure

204. The proposed assessment structure for Non-urban Transport is summarised in Table 16.

Table 16 PROPOSED ASSESSMENT STRUCTURE FOR THE 2004 REVIEW —
NON-URBAN TRANSPORT

Component	Component weight	Factors	Basis of calculation
	%		
Services to Industry	XX	Administrative scale	General method, weighted by the proportion of scale affected expenditure.
		Size of task	No of businesses or non-urban population per capita.
		Input costs	General method with weights of XX% for wages, X% for accommodation and X% for electricity.
Industry Assistance	XX	To be decided.	As for Economic Development.
Concession Payments	XX	Socio-demographic composition	Based on the numbers of persons in receipt of a Commonwealth Health Care Card and 11-15 year olds. Weighted for use by metropolitan/non-metropolitan residential status. The ACT population treated as part of the NSW metropolitan population.
General Subsidies	XX	Service delivery scale	Based on the proportion of the population living outside centres equal to or greater than 50 000 people weighted by one; rural component by +X, the very remote component by +Y and Island dwelling component by +Z.

ATTACHMENT A — INFORMATION PROVIDED BY STATES

1. The information is provided in two parts. The first part is a series of six tables that illustrate the range of expenses States incur regarding the Electricity and Gas; Water, Sewerage and Protection of the Environment; and Non-Urban Transport functions.

2. The second part provides a summary of other information that supports the proposed assessment of disabilities.

TYPES OF EXPENSES INCURRED BY STATES

3. The expenses are classified according to the proposed assessment structure. They are not from any one particular accounting period and include both:

- (i) operating and similar amounts incurred each year on an ongoing basis, for example, pensioner concessions and uniform tariff policy costs; and
- (ii) specific payments that may be paid in one year or over a number of years, for example, rural energy subsidy payments in New South Wales and Victoria.

4. When developing an assessment structure, the calculation of the relevant component weights will be based on a more comprehensive budget analysis than that provided here. To assist in that analysis, States are requested to supply the relevant budget information. See Attachment B.

Table A1 ELECTRICITY AND GAS — CONCESSIONS AND GENERAL SUBSIDIES

State	Concessions ^(a)		General Subsidies ^(b)	
	Type of concession	How concession is funded	Type of subsidy	How subsidy is funded
NSW	Pensioners \$71m, Life support \$2m, Financial hardship assistance \$7.9m	Explicitly by Government from its budget	Rural energy \$140m Remote inland energy and water \$1m	Unknown Explicitly by Government from its budget
Vic	Health Care Card Holders \$81.3m, comprising of \$43.4m for electricity, \$32.7m for gas and \$2m for administration	Explicitly by Government from its budget	A one year Special Power Payment to regional/rural consumers. \$118m	Explicitly by Government from its budget
Qld	Pensioner rebate (\$8.50 max. per month per pensioner). Life support and Drought Relief		Uniform tariff \$90m (of which remote areas receive \$31.4m)	Explicitly by Government from its budget
WA	Rebate for Health Care Card holders. \$28.8m Additional pensioner rebate for hot climates. \$0.5m	Explicitly by Government from its budget	Non-interconnected systems \$46m SW and NW interconnected systems \$150m	Absorbed within tariff structure
SA	Pensioner rebate of \$70 per pensioner for electricity. Pensioner rebates for gas are at the discretion of the service provider and do not impact on government expenses.	Explicitly by Government from its budget	Subsidises off-grid (remote) communities. Grid tariff plus 10%	Absorbed within tariff structure
Tas	Pensioners \$10m	Explicitly by Government from its budget	Uniform tariff regime Bass Strait Islands (remote) \$6m (includes pensioner payments)	Absorbed within tariff structure Explicit
ACT	Health Care card and Life support \$3m	Explicitly by Government from its budget	none	
NT	Pensioner. 50% of bill up to \$365 per pensioner Additional pensioner subsidy 95 cents per kWhr per pensioner.	Explicitly by Government from its budget	Uniform tariff policy. \$18.49m (includes Indigenous communities)	Explicitly by Government from its budget

(a) Unless otherwise stated, the expense figures are based on a pensioner energy rebate that combines both electricity and gas.

(b) No general subsidies for gas services apply.

Table A2 ELECTRICITY AND GAS — SERVICES TO INDUSTRY AND INDUSTRY ASSISTANCE

State	Services to Industry		Industry Assistance	
	Type of Service	How service is funded	Type of Assistance	How assistance is funded
NSW	Ministry of Energy and Utilities \$7.5m, Independent Pricing and Regulatory Tribunal \$10m(a) Sustainable Energy Development Authority \$10m, Sustainable Energy Research and Development \$1m	Explicitly by Government from its budget	South Australia – NSW interconnection	TransGrid is involved. However, no direct general government funding.
Vic	Essential Services Commission	Move to full cost recovery through licence fees	Upgrade of electricity lines in dairy areas. Gas extensions to the Bellarine Peninsula	Explicitly by Government from its budget (through Department of Innovation, Industry and Regional Development)
Qld	Queensland Competition Authority, Office of Energy.	Explicitly by Government from its budget	Subject to evaluation - gas delivery and gas-fired base load generation in Townsville	Decision due March 2002
WA	Office of Energy Independent Gas Pipelines Regulator	Explicitly by Government from its budget Through fees collected from the industry	Gas pipeline in the Murchison \$1m Land acquisition for gas pipeline \$100m	
SA	SA Independent Industry Regulator, Technical Regulator, Electricity Supply Industry Planning Council \$6m	Through licence fees collected from the industry		
Tas			Basslink \$500m Tasmanian Natural Gas Project	Market based, no government funding
NT	Utilities Commission; Department of Business, Industry and Resource Development.	Explicitly by Government from its budget	Phillip’s LNG facility	Not known at this stage

(a) This also covers activities other than gas and electricity.

Table A3 WATER, SANITATION AND PROTECTION OF THE ENVIRONMENT
— CONCESSIONS AND GENERAL SUBSIDIES

State	Concessions		General Subsidies	
	Type of concession	How concession is funded	Type of subsidy	How subsidy is funded
NSW	\$88/ year	Explicitly by Government from its budget	Country Water Supply and Sewerage Program	Explicitly by Government from its budget
Vic	Pensioner (max \$135 per household), community organisations rebates (\$260 per organisation), hardship rebates \$1.38m	Explicitly by Government from its budget	No operational subsidies. Relatively low rate of return to government by rural service providers	Absorbed within tariff structure
Qld	20% subsidy. Maximum of \$180 per household per annum	Explicitly by Government from its budget	Smaller Communities Assistance Program	Explicitly by Government from its budget
WA	\$100/year Pensioner or State Concession Card holders \$29.4m	Explicitly by Government from its budget	Regional water and sewerage \$150m	Explicitly by Government from its budget
SA	Pensioner concessions (\$185 max per household) plus Community organisations rebates		Statewide water and waste water pricing \$78.2m	Explicitly by Government from its budget
Tas	Pensioner concession (max \$300 per household)	Explicitly by Government from its budget		
ACT				
NT	Pensioner concessions (\$100 per pensioner)		Remote communities \$6.81m	Explicitly by Government from its budget

Table A4 WATER, SANITATION AND PROTECTION OF THE ENVIRONMENT
— SERVICES TO INDUSTRY AND INDUSTRY ASSISTANCE

State	Services to Industry		Industry Assistance	
	Type of service	How service is funded	Type of assistance	How assistance is funded
NSW				
Vic	Essential Services Commission Environmental Protection Agency (EPA) as regulator, Department of Natural Resources and Environment (DNRE) Regional Water Authorities (RWA) Catchment Management Authorities (CMA)	Explicitly by Government from its budget	Town sewerage program \$26.5m	Explicitly by Government from its budget
Qld				
	Environmental Protection Services Department of Natural Resources and Mines (DNRM) The Department of Health	Provided by Government, but not as subsidy Explicitly by Government from its budget		
WA				
	Office of Water Regulation	Explicitly by Government from its budget		
SA				
Tas				
	Department of Primary Industries, Water and Environment	Explicitly by Government from its budget		
ACT				
NT				
	Utilities Commission	Explicitly by Government from its budget		

Table A5 NON-URBAN TRANSPORT — CONCESSIONS AND GENERAL SUBSIDIES

State	Concessions		General Subsidy	
	Type of concession	How concession is funded	Type of subsidy	How subsidy is funded
NSW	Health care card holders plus students	Explicitly by Government from its budget	Rural rail lines \$169m Rail freight \$72	Explicitly by Government from its budget
Vic	Pensioners, certain benefit recipients, children, secondary school students and full-time tertiary students (50% of standard adult fares) Operators receive a concession top-up equal to 25% of the full adult fare for each concession ticket sold.		All country passenger rail, coach and bus services operated under contract to the Department of Infrastructure – amount not stated Rural freight \$5.8m	Explicitly by Government from its budget
Qld	Rail concession payments from the Department of Families – Not stated as a separate item – total urban and non-urban concessions \$23m	Explicitly by Government from its budget	Bus not stated Rail service subsidies for non-urban passenger and freight services are provided Not stated as a separate item – total urban and non-urban rail subsidies \$652m Air \$3.9m, Ferry \$0.9m	Explicitly by Government from its budget
WA	Pensioner and remote student non-school travel \$7.8m	Explicitly by Government from its budget	Non-urban rail and bus services \$26m Air \$1.4m Shipping Freight \$3.7m	Explicitly by Government from its budget
SA			Non-urban bus services No subsidies for rail, air or water.	
Tas	Pensioner concession and school age children (35% is paid by govt to operator)	Explicitly by Government from its budget	Bruny Island Ferry	
NT	Health care card holders plus full time students	Explicitly by Government from its budget	General transport operations – subsidises difference between operating costs and revenues for selected bus services. Mandorah Ferry. Infrastructure costs for air and sea transport services	

Table A6 NON-URBAN TRANSPORT — SERVICES TO INDUSTRY AND INDUSTRY ASSISTANCE

State	Services to Industry		Industry Assistance	
	Type of service	How service is funded	Type of assistance	How assistance is funded
NSW	IPART administers the Rail Access Regime code The Rural and Regional Strategy Unit of Transport NSW	Explicitly by Government from its budget	Promoting rail freight \$80m	FreightCorp
Vic	Department of Infrastructure ESC	Explicitly by Government from its budget		
Qld	Queensland Transport (QT)	Explicitly by Government from its budget		
WA	Office of the Rail Access Regulator	Explicitly by Government from its budget		
SA	PTB's Regional Services Group	Explicitly by Government from its budget		
Tas	Currently undertaking a comprehensive review of non-urban transport services.	Explicitly by Government from its budget		
ACT				
NT	Planning and regulation services for rail, marine, air and road passengers and freight	Explicitly by Government from its budget		

OTHER SUPPORTING INFORMATION

Electricity and Gas

5. ***New South Wales.*** Australian Inland Energy and Water provides services for a large area of western New South Wales, but has a small customer base of approximately 22 000. The Government makes an explicit payment to Australian Inland Energy and Water of approximately \$1.0 million per annum to defray the operating expenses associated with servicing this large but sparsely populated network. No other remote area receives Government assistance. There are no policies specifically designed to service Indigenous communities.

6. ***Victoria.*** Reticulated electricity is available in almost all areas of the State. Because the State does not own energy supply companies, subsidies are provided through direct budgetary support. A one-year Special Power Payment provides subsidies to regional/rural consumers (\$118m).

7. ***Queensland.*** It is more costly for Queensland to supply electricity to some customers than others. Total Community Service Obligation (CSOs) payments were \$160m. The net impact on the budget of subsidising remote customers is estimated at \$31.4 million for 2001-02. Table A7 shows the estimated regional price effects of removing the uniform tariff policy.

Table A7 QUEENSLAND — ELECTRICITY TARIFFS BY REGION

Region	Annual Bill Uniform Tariffs	Annual Bill Removal of Uniform Tariffs
	\$	\$
SEQ	740	714
SWQ - Coastal	740	846
SWQ - Remote	740	1606
Wide Bay	740	728
Mackay - Coastal	740	870
Mackay - Remote	740	2017
CQ - Coastal	740	772
CQ - Remote	740	1197
NQ - Coastal	740	873
NQ - Remote	740	2472
FNQ - Coastal	740	1046
FNQ - Remote	740	2354

8. **Western Australia.** Reasons for High Electricity Prices are as follows.

- (i) Higher Fuel Costs — Western Power's cost of coal was 3.84 cents per kWh compared to the 0.51 cents per kWh in New South Wales.
- (ii) Low Utilisation Of Generating Plant — at 45.8 per cent, the utilisation of Western Power's generating plant is substantially below the Australian average of 59.9 per cent¹⁰.
- (iii) Lack of Interconnection to the Eastern States Grid — this makes it cheaper for large scale users to locate in the eastern States.
- (iv) Low Density of Electricity Loads — electricity transmission and distribution costs are high due to low population density. Western Australia transmits 105 kWh per kilometre of transmission and distribution lines compared with 206 kWh in New South Wales, 245 kWh in Victoria, 185 kWh in Queensland and 142 kWh in South Australia. Operating costs in Western Australia are \$3.73 per MWh compared with the Australian average of \$1.53 per MWh.
- (v) Non-grid Generation — small isolated networks have substantially higher costs because they are unable to use large-scale generation with lower cost bulk fuels.
- (vi) Weather Conditions — higher costs because of the need to design to withstand cyclonic conditions and frequent lightning strikes.

9. **South Australia.** South Australia has privatised both the electricity and gas industries and is not providing any subsidies to the service providers, or receiving lower dividends. Following full retail contestability (FRC) on 1 January 2003, the government implemented the Country Price Equalisation Scheme which limits the price difference for a small customer to no more than 1.7 per cent higher than the equivalent metropolitan customer. A small amount of money was set aside to reimburse losses by retailers to these customers. The Scheme is self-funding through cross-subsidies within the tariff structure.

10. **Tasmania.** A uniform tariff regime exists across mainland Tasmania. Customers of each given class pay a uniform charge, regardless of their geographic location. The cost of generation on the Bass Strait Islands (BSI) is substantially higher (by a magnitude of over 10 times) than on mainland Tasmania. There is a formal arrangement between the Government and the electricity generator (Hydro Tasmania) to reduce the costs faced by customers on the BSI.

11. **ACT.** The ACT Government does not provide any subsidies to the service providers, nor is it receiving lower dividends.

10 Source: Western Australia, Concessions & Other CSOs Data Return, Table A1, p.24, quoting: Electricity Supply Association of Australia Ltd, Electricity Australia 2001, Table 2.9

12. ***Northern Territory.*** The Territory provides budget funding, in the form of a CSO, to the Power and Water Authority (PAWA) for the maintenance of uniform electricity tariffs throughout the Territory. Disabilities are due to:

- (i) small economy;
- (ii) the climatic attributes: aridity and monsoons;
- (iii) a highly dispersed population, the majority of whom live in remote or very remote areas; and
- (iv) the high input costs associated with electricity generation — lacking cheaper options such as coal, the Territory uses gas and diesel to generate most of its electricity.

Water, Sanitation and Protection of the Environment

13. ***Queensland.*** Three funding programs provide State Government subsidies for the provision of water supply, water treatment and sewage treatment infrastructure for urban communities in Queensland. These are:

- (i) a general subsidy to all local governments for water and sewerage services;
- (ii) an additional sewerage scheme, attributable to the beneficial long-term re-use of wastewater as an alternative to discharging into waterways; and
- (iii) the Smaller Communities Assistance Program, which provides a capital subsidy of up to 100 per cent towards reliable water supply and sewerage services in communities of less than 5000 persons.

14. Table A8 shows the indicative full cost of providing services to communities of differing population size, if subsidies were not applied.

TABLE A8 INDICATIVE FULL COST OF PROVIDING WATER AND SEWERAGE IN QUEENSLAND

Urban Centre Population	Average Cost per Capita ^(a)			Weight ^(b)
	Water	Sewerage	Total	
	\$	\$	\$	
100	1 180	660	1 840	2.45
500	700	490	1 190	1.58
1 000	570	430	1 000	1.33
5 000	430	360	790	1.05
10 000	400	350	750	1.00

(a) \$ per capita per annum, including operation, maintenance, depreciation expenditures and a nil return on assets.

(b) Weight calculated by Commonwealth Grants Commission staff.

Source: Queensland Submission citing: Urban Water Services Providers Infrastructure Survey (Draft), Cardno MBK, 2001.

15. Cost influences for providing a reasonable standard of water and sewerage services to remote communities include the following.

- (i) Higher Operation and Maintenance Costs — higher electricity, freight and labour costs for remote locations.
- (ii) Low Rate Base — Smaller communities may have an insufficient rate base to undertake the capital cost per connection.
- (iii) Water Quality in Arid Areas — Many communities are forced to rely on artesian bore water, which in many cases is of poor quality.
- (iv) Technology — Sophisticated technology used (such as reverse osmosis for water treatment) in remote locations does not always perform up to expectations due to the lack of trained service personnel. However, to provide communities with better quality services, such equipment still may need to be used, unavoidably increasing capital, operation, maintenance and administration costs.

16. *Western Australia.* Factors contributing to the higher costs and the high general CSO payments in Western Australia include the following.

- (i) Where water supplied is of marginal quality, expensive treatment is needed for it to meet drinking water standards.
- (ii) Where there is a lack of naturally occurring local water, supply needs to be transported over long distances.
- (iii) Low economies of scale (reflecting low population densities) for water and sewerage infrastructure.

- (iv) A scarcity of labour skilled in water chemistry or electronics. High travel costs are incurred in providing central logistical support.
- (v) High equipment and chemical procurement costs in regional and remote areas.
- (vi) The high evaporation rates in many areas of Western Australia and the seasonal variability of water resources reduce the amount of water available for consumption.

17. Infrastructure and maintenance costs are greatly influenced by pipeline length. The three main regional pipeline schemes are:

- (i) The Goldfields & Agricultural Water Supply;
- (ii) Great Southern Towns Water Supply; and
- (iii) West Pilbara Water Supply.

18. Table A9 below shows the average cost per property in the metropolitan area compared to costs in country areas. Infrastructure and operating costs are much higher in country areas.

TABLE A9 AVERAGE COST PER PROPERTY 2000-2001

	Water	Sewerage
	\$	\$
Metropolitan operating cost	158	140
Metropolitan capital cost	286	413
Metropolitan total cost	444	553
Country operating cost	663	187
Country capital cost	770	457
Country total cost	1433	644

Source: (WA) Water Corporation

19. *South Australia.* SA Water is given a CSO to compensate for the provision of water and sewerage services to regional customers at prices that would otherwise be non-commercial.

20. Cost disabilities associated with remote and arid regions are as follows.

- (i) Distance and population spread/density — the distance disadvantage is driven by the scarcity of water in the State and the need to pump water over long distances.
- (ii) Unreliability of supply.

21. Distance and economies of scale are the main differentials in country areas. In these areas, the population served per kilometre of water main is 25 compared to 122 in the metropolitan area. In the country, water supply operating expenses per head of population are far higher (\$306 per head in the country compared to \$129 in the metropolitan region). The total average cost of supplying a kilolitre of water to country customers is almost double the metropolitan cost (\$1.69 per kilolitre compared with \$0.85).

22. South Australia also cited disabilities associated with urban areas, but the costs associated with these disabilities are absorbed within the operations of service providers. The disabilities are as follows.

- (i) Urban development in Mount Lofty Ranges watershed has resulted in treatment plants needing to either treat wastewater to a high standard (nutrient reduction) or implement reuse programs in order to protect the source water supply.
- (ii) Saline groundwater intrusion into sewerage systems in some coastal areas precludes reuse of wastewater on land. This necessitates a higher standard of treatment, such as nutrient reduction, to enable continued discharge into the marine environment.
- (iii) Adelaide's location is adjacent to the sheltered marine waters of the St Vincent's Gulf. This necessitates a higher standard of wastewater treatment, such as nutrient removal and/or greater reuse, than is necessary for other major cities that can discharge their effluent into deep ocean waters.

23. **Tasmania.** Services are generally provided on a cost recovery basis except for infrastructure costs to small communities.

24. **Northern Territory.** Disabilities faced by the Northern Territory are due to:

- (i) low quality ground water;
- (ii) remoteness;
- (iii) higher costs of drawing water; and
- (iv) the monsoonal wet season.

25. The shortfall between expenditure and revenue is \$4.59m for water and \$2.22m for sewerage.

Non-urban Transport

26. **New South Wales.** StateRail and the Rail Infrastructure Corporation (RIC) receive subsidies. The subsidy to StateRail is for operations, while the subsidy to RIC is for infrastructure maintenance and non-commercial capital.

27. **Victoria.** The Government subsidises all country passenger rail, coach and bus services operated under contract to the Department of Infrastructure. This system is designed to keep fares at acceptable levels, well below the actual cost of service provision, particularly in rural areas where patronage levels are low.

28. Through an agreement with Freight Australia, the government provides a subsidy for general freight services in rural areas. This was previously known as the 'Fast Track' service.

29. The only water transport service subsidised in Victoria is a ferry service between French Island and Stony Point. It is predominantly used by school children attending Hastings Secondary College.

30. The Victorian Government does not subsidise regional air transport.

31. Rail infrastructure required to operate non-urban services was leased to Freight Australia and to a metropolitan rail operator, Bayside (now M>Train). The interstate track was leased to the Australian Rail Track Corporation (ARTC). Passenger operators pay the infrastructure lessees access charges for use of the track.

32. Bidders for both Freight Australia and Bayside were advised that the proposed regime for access would not permit the recovery of lease costs, so the value of the infrastructure existing at the dates of the respective leases (in 1999) is still essentially provided as a subsidy from the State.

33. Under the agreement with ARTC, a return on 'sunk' cost is permissible, based on evidence supplied to the ACCC by ARTC. A small contribution to capital costs is earned on the Melbourne – Adelaide route, but none on the Melbourne – Sydney line.

34. In the case of rolling stock, existing stock was included in the V/Line franchise 'package' and was purchased for a notional figure. The cost of new rolling stock will be largely met through higher subsidy payments from the State.

35. The capital cost of buses is included in contract rates paid to bus operators. Operators provide:

- (i) free bus services to eligible students, and
- (ii) public transport services offering subsidised fares to the general public.

36. **Queensland Rail.** Queensland Rail (QR) received about \$675 million from the Queensland Government for community services in 2000-01. Queensland Transport (QT) provides community service subsidies for non-urban transport to:

- (i) QR's Traveltrain, for long distance rail services;
- (ii) QR's Citytrain, for inter-urban services; and

- (iii) aspects of QR's regional freight services, but excluding mining haulage.

37. Total payment for QT's purchase of government services from QR was about \$652 million in 2000-01. In addition, rail concession payments from the Department of Families to QR is estimated at \$23 million in 2000-01.

38. **Ferry Services.** QT provides community service subsidies for inter-urban ferry services between Moreton Bay island communities and the mainland, and Magnetic Island and Townsville.

39. Provision of ferry services in the Torres Strait are currently under review.

40. Total community service subsidies for non-urban ferry services in Queensland was \$0.948 million in 2000-01.

41. **Regional Air Services.** The Queensland Government provides community service subsidies to private aviation operators in Western and Far North Queensland. Government financial support is necessary to ensure that transport-disadvantaged communities have reasonable access to essential social, cultural and economic destinations. The CSO payments totalled \$3.9 million in 2000-01.

42. **Bus.** In Queensland, there are generally no subsidies for long-distance bus services. Exceptions are the payments to private operators to provide bus services between:

- (i) Maryborough and Hervey Bay;
- (ii) Townsville and Charters Towers; and
- (iii) services to towns in South West Queensland, including Cunnamulla.

43. Government financial support is provided to these communities for similar reasons detailed in Regional Air Services above. These particular subsidies are provided as a result of market failure and the private sector's inability to provide this essential service, to these communities, without government support. Total community service subsidies for these services were \$0.146 million in 2000-01.

44. **Western Australia.** The Department for Planning and Infrastructure (DPI) in Western Australia provides a range of subsidies in support of transport outside Perth. These subsidies include bus and rail inter-town services (\$21 million per annum) and intra-town bus and taxi services (\$5.3 million per annum).

45. The collapse of Ansett necessitated an increase in the existing subsidies and the introduction of further subsidies for air services in the north of the State. Overall, air subsidies are expected to quadruple, to \$1.4 million per annum.

46. There are no regular passenger water transport services in non-urban areas of Western Australia.

47. *Freight Services.* Western Australia subsidises the provision of a regular freight shipping service to the North West, at a cost of \$3.7 million annually. The service currently comprises a one vessel operation, maintaining a regular 17 day schedule between Fremantle and Darwin, with calls at Pilbara and Kimberley ports in between¹¹. The subsidy provided by Government to the operator of the service recognises the non-commerciality of the route. If there were no Government support, there would be no service. The advantages of this service include:

- (i) an effective cap on freight costs to remote communities;
- (ii) reducing the cost of road damage;
- (iii) taking dangerous and unsuitable cargoes off the road system;
- (iv) maintaining a freight route to the North West, during road closures due to bad weather; and
- (v) encouraging industry, including exporters, by ensuring the viability of a freight service.

48. *South Australia.* Although Transport SA is responsible for the regulation of non-urban rail, air and water transport operations, it neither owns nor administers any of the related infrastructures. There are at present no recognised ongoing subsidies for the provision of non-urban rail, air or water transport services.

49. *Tasmania.* Non-urban transport policy is based on providing reasonable levels of access to communities of a minimum size, to ensure access to centres for the provision of amenities, including health services, Government services (Social security etc) and educational facilities. General subsidies have been paid in exceptional circumstances and may, in future, feature in a small number of instances where patronage is thin. In the case of the Bruny Island ferry, both passengers and freight movements are supported by a general subsidy and specific passenger concessions. The State Government makes no payments, and provides no offsetting of capital costs, for non-urban transport in Tasmania.

50. *Northern Territory.* While a general subsidy is provided to the public bus service in Alice Springs, no subsidy is provided to operators of public, long-distance coach services.

51. No subsidies are paid to operators of air services in the Territory, but the Territory assists with the provision of airstrips and airports at some communities. The Territory owns aerodromes in 12 locations.

¹¹ The Government is examining the need to operate a second vessel.

ATTACHMENT B — REQUEST FOR INFORMATION FROM THE STATES

States' Expenses

1. For each of the functions: Electricity and Gas; Water, Sanitation and Protection of the Environment; and Non-urban Transport, the Commission requests expenses data, as set out in Tables B1, B2 and B3.

2. To assist in the determining the component weight that may be used in the proposed assessment structure, please divide expenses into the following components.

- (v) ***Services to Industry.*** General government expenses reflecting general services to industry such as administration, planning (including for industry restructuring), regulation, economic development and research. This component would include expenses re-allocated from the discontinued Regulatory and Other Services category.
- (vi) ***Concession Payments.*** Those payments made for the benefit of specific sub-groups of the population (for example, pensioners).
- (vii) ***General Subsidies.*** Those payments, including capital grants, in the nature of a subsidy made for the benefit of all users of a service (for example, supplying a minimum level of water in all inhabited areas).
- (viii) ***Industry Assistance.*** Those payments, including capital grants, in the nature of economic development assistance for the industry.

3. For Water, Sanitation and Protection of the Environment, please provide the expenses relating to protection of the environment separate to the component expenses relating to water and sanitation.

Table B1 EXPENSES FOR ELECTRICITY AND GAS FOR 2001-02 AND 2002-03

Expense Component	2001-02	Estimate 2002-03
	\$m	\$m
Services to Industry		
Industry Assistance		
Concession Payments		
General Subsidies		

Table B2 EXPENSES FOR WATER, SEWERAGE AND PROTECTION OF THE ENVIRONMENT FOR 2001-02 AND 2002-03

Expense Component	2001-02	Estimate 2002-03
	\$m	\$m
Services to Industry (excluding Protection of the Environment related expenses)		
Protection of the Environment related expenses		
Industry Assistance		
Concession Payments		
General Subsidies		

Table B3 EXPENSES FOR NON-URBAN TRANSPORT FOR 2001-02 AND 2002-03

Expense Component	2001-02	Estimate 2002-03
	\$m	\$m
Services to Industry		
Industry Assistance ^(a)		
Concession Payments		
General Subsidies ^(b)		

(a) Including developmental assistance for upgrading networks.

(b) These subsidies are for essential services (freight and passenger) that could not otherwise operate at a normal commercial rate of return.

Concession Payments Eligibility

4. Information provided by the States and the Commonwealth indicate that States' policies on eligibility for concessions on services may be changing. The Commission requests information on States' intentions, as per Table B4.

Table B4 ELIGIBILITY FOR CONCESSIONS, 2003-04 ^(a)

Service provided	Pensioners Card	Commonwealth Seniors Health Care Card holders	Commonwealth Health Care Card holders	Other ^(b)
	(Yes or No)	(Yes or No)	(Yes or No)	
Electricity				
Gas				
Water and Sewerage				
Non-urban transport travel				

(a) Please indicate which group would be eligible for concessions on charges for services.

(b) Please identify.

Relative Costs of Electricity Subsidies

5. In order to determine cost weights for a service delivery scale factor, States are asked to provide, in Table B5, cost data on provision of subsidies to various regions defined by the ARIA+ classification.

Table B5 COST OF ELECTRICITY SUBSIDIES BY REGION

ARIA+ Region	Applied tariff	Full service cost
	\$	\$
Major city		
Inner regional		
Outer regional		
Remote		
Very remote		

6. To determine the disability effect of the type of technologies necessary for the generation of electricity in remote areas, States are asked to provide estimates of the volume of fuel used for the generation of each unit of electricity, and unit cost of the fuel used. Table B6 sets out the data required.

Table B6 COST OF ELECTRICITY GENERATION USING DIFFERENT SCALE TECHNOLOGIES

Technology used	Unit cost of fuel used	Volume of fuel used per kW of electricity output
	\$	
Coal fired generators used in large urban environments		
Diesel fired generators used in remote environments		
Gas fired generators used in remote environments		

Costing Disabilities for General Subsidies to Water, Sanitation and Protection of the Environment

7. To determine cost weights for a physical environment, States are asked to provide, in Table B7, cost data on subsidies provided to various regions defined by the ARIA+ classification.

Table B7 COST OF WATER AND SEWERAGE SUBSIDIES BY REGION

ARIA+ Region	Water Supply		Sewerage services	
	Applied tariff	Full service cost	Applied tariff	Full service cost
	\$	\$	\$	\$
Major city				
Inner regional				
Outer regional				
Remote				
Very remote				

8. Community size, water quality, water availability and sewerage disposal in fragile environments may impact on the level of general subsidies.

9. To determine the cost weights associated with the relevant disabilities, we need:

- (i) the standard cost of supply for services in regions which do not encounter the additional costs; and
- (ii) the relevant populations and standard additional costs, associated with each particular disability.

10. **Standard cost of supply.** In Table B8, States are requested to supply information on the unit cost of supply of water and sewerage services to capital city communities. These communities are considered not to incur any additional costs.

Table B8 STANDARD UNIT COST OF SUPPLY FOR SERVICES IN CAPITAL CITY COMMUNITIES

Service	Cost per unit
Water supply	
Sewerage disposal	

11. **Standard subsidy associated with each disability.** In Table B9, States are requested to supply information on the additional unit cost of supply of water and sewerage services to communities where the identified additional cost disabilities occur. The location of these communities is also requested. The table below is a shorthand version indicating the type of data we wish to collect.

Table B9 ADDITIONAL COSTS OF SUPPLY OF SERVICES

Identified Disability		SLAs requiring additional expense	Average additional per unit cost of supply attributable to the identified disability
Community size	Less than 500		
	Between 500 and 1 000 people		
	Between 1 000 and 5 000 people		
	Between 5 000 and 50 000 people		
	Rest (excluding capital cities)		
Marginal water quality			
Lack of sufficient surface water	Bore water supplied		
	Pipeline water supplied		
Sewerage disposal in fragile environments			

Non-urban Transport Costs

12. *The distribution of concession travellers.* The distribution of concession travellers may have an impact on States' expenses. In Table B10, please supply data on the proportion of non-urban transport use that is made by concession travellers residing in:

- (i) metropolitan areas (Metropolitan statistical divisions); and
- (ii) non-metropolitan areas.

Table B10 CONCESSION TRAVEL ON NON-URBAN TRANSPORT BY PLACE OF RESIDENCE

Place of residence	Number of journeys in non-urban areas ^(a)
Metropolitan	
Non-metropolitan	

(a) Do not include commuting to and from school by rural school children.

13. Subject to the outcome of the November Conference, we may also need to collect data relating to the need for air, ferry or other non-urban transport subsidies.

ATTACHMENT C — SPECIFIC PURPOSE PAYMENTS TO THE STATES

1. The Estimated Specific Purpose Payments to the States for 2002-03 and 2003-04 relevant to the assessment issues covered in the paper are shown in Table C1.

Table C1 SPECIFIC PURPOSE PAYMENTS IN 2002-03 AND 2003-04, SHOWN IN *FEDERAL FINANCIAL RELATIONS 2003-04*, BUDGET PAPER No. 3 ^(a)

Commonwealth Payment	Description of Program	Estimated Amount Paid in 2002-03	Estimated Amount Paid in 2003-04
		\$m	\$m
<i>Housing and Community Amenities</i>			
Assistance for Water and Sewerage	To compensate the ACT Government for additional costs resulting from the national capital planning influences on the provision of water and sewerage services.	8.68	8.86
Urban water supply and treatment			
Urban water supply and treatment	Repayment of principal and payment of interest on loans to South Australia for water quality improvement via Adelaide and Northern Towns Water Treatment, and to Western Australia for salinity mitigation via the Harding River Dam Project.	Principal repayment 0.35	Principal repayment 0.39
		Interest payment 1.01	Interest payment 1.01
Northern Territory – water and sewerage assistance	Repayment of the principal and payment of interest on a loan relating to assets transferred from the Commonwealth to the Northern Territory at self-government in 1978.	Principal repayment 0.14	Principal repayment 0.14
		Interest payment 0.64	Interest payment 0.63
Captains Flat (Abatement of Pollution) Agreement	A loan agreement that generates repayments of principal and interest from the New South Wales Government in relation to capital works undertaken at Captains Flat to prevent pollution of the Molonglo River.	Principal repayment 0.01	Principal repayment 0.01
		Interest payment 0.01	Interest payment 0.01
Sewerage	Repayment of the principal and payment of interest on loans provided under the <i>Urban and Regional Development (Financial assistance) Act 1974</i> to all States to eliminate the backlog of sewerage works.	Principal repayment 3.1	Principal repayment 3.4
		Interest payment 7.4	Interest payment 7.1

(a) Continued next page.

Table C1 SPECIFIC PURPOSE PAYMENTS IN 2002-03 AND 2003-04, SHOWN IN *FEDERAL FINANCIAL RELATIONS 2002-03*, BUDGET PAPER No. 3 (continued)

Commonwealth Payment	Description of Program	Estimated Amount Paid in 2002-03	Estimated Amount Paid in 2003-04
		\$m	\$m
<i>Transport and Communication</i>			
Petroleum Products Freight Subsidy Scheme	The States Grants (Petroleum Products) Act 1965 provides for grants to be made to the States to enable them to subsidise the cost of transporting eligible petroleum products to remote areas.	3.5	3.5
Tasmanian Wheat Freight Scheme	Assists the economic sustainability of the cereal processing and related baking, intensive animal, feedlot and aquaculture industries in Tasmania	1.2	1.2
Railways	Repayment of the principal and payment of interest on loans provided to upgrade and standardise railways in mainland Australia.	Principal repayment 0.57 Interest payment 0.42	Principal repayment 0.57 Interest payment 0.39
Alice Springs to Darwin Railway	Additional funding towards the construction of the Alice Springs to Darwin rail link.	5	8.8
<i>Social Security and Welfare</i>			
Concessions for Commonwealth Seniors Health Card Holders	Assistance for extending the pensioner concessions to CSHC holders.	39.74	74.50
State Seniors Card Reciprocal Transport Concessions	Railways Assistance for national reciprocity of transport concessions.	5.2	5.2
<i>Fuel and Energy</i>			
Photovoltaic Rebate Programme	To provide rebates to householders and community groups who install photovoltaic equipment to make electricity from sunlight.	5.4	1.8
Renewable Remote Power Generation.	To provide a rebate for the installation of renewable energy generation technologies in areas of Australia currently reliant on diesel for electricity. Funding is based on the relevant amount of Diesel Fuel Excise paid in each State by public electricity generators.	15	14.3

Source: Commonwealth Government, *Federal Financial Relations 2002-03*, Budget Paper No.3.

ATTACHMENT D — AUSTRALIA STANDARD GEOGRAPHICAL CLASSIFICATION REMOTENESS STRUCTURE (ARIA+) MAP

