



Our ref: CEOW107/10
Enquiries: John Loney, 6364 7108

Inquiry into Water Resource Management Charges
Economic Regulation Authority
PO Box 8469
Perth Business Centre
PERTH WA 6849

Attention: Dr Ursula Kretzer

DEPARTMENT OF WATER SUBMISSION TO THE ECONOMIC REGULATION AUTHORITY (ERA) DRAFT REPORT OF 3 DECEMBER 2009: INQUIRY INTO WATER RESOURCE MANAGEMENT AND PLANNING CHARGES.

The Department of Water (the department) welcomes the draft report of 3 December and is generally supportive of its recommendations.

The department is particularly appreciative of the cooperative and inclusive approach adopted by the ERA in its discussions with departmental staff and in ensuring that they were kept fully aware of the process at all times.

A consultant has been engaged to work with the department to ensure that more detailed data are available to the ERA in coming months.

Comments on the draft recommendations are provided below.

Recommendation 1

The department agrees with all of the principles recommended by the ERA with the proviso that the costs of disaggregating data to clearly identify users or beneficiaries should not be excessive, or the task itself require substantial additional resources.

Recommendation 2

The department supports the principle of costs being allocated between public and private users in this manner and is currently working to determine what the appropriate split would be.

Recommendation 3

The department supports this recommendation.

Recommendation 4

The department has some concerns with this recommendation. While the principle appears sound, the practical application would be difficult and the costs of applying it would appear to outweigh the benefits.

Assessing the public versus private benefits of each local government licence would be prohibitively complex and beyond the department's area of expertise.

Implementation would be aided by a clear definition of when cost sharing would (or would not) apply. Cases such as the public open space (and particularly entry statements) of real estate developments may cause confusion if clear guidelines are not available. In these cases a developer installs the public open space as a condition upon a commercial enterprise. At a later time the public open space is transferred to the local government, which assumes ongoing management as community public open space.

Other water users may assert that similar treatment is warranted, (e.g. schools and cemeteries). The department suggests the ERA consider such issues in preparing its final report.

Recommendation 5

Again, while the principle is sound, the practical application would be difficult and would result in differing charges for users in different years depending on which area of the State the department was focusing its planning work on at the time.

The department's view is that the fee for service model proposed at recommendation 13 could capture the major drivers that influence costs incurred for a licensee.

The department needs the flexibility to assign resources between regions on a need and priority basis. As a consequence, actual regional costs could vary from year to year.

The department is strongly of the view that similar applications require similar effort to assess regardless of region or location. For example, the effort required to assess a 1GL application for vegetables with no unacceptable impacts would be the same if it was located at Busselton or Gingin.

Recommendation 6

The majority of work undertaken is for private benefit associated with a licence application, and these costs should be considered as start up and running costs. While the department does benefit from some of the work undertaken in terms of assessing the potential impacts and management needs of the localised water use, this would not be required if there was no proposal to use water. The work is usually essential for the applicant in any case to conduct and manage their own operations

For example, the groundwater investigation completed to support a licence application for a mine site would be used by the applicant to prepare a hydrogeological report in support of the licence application, and to provide essential information for mine dewatering design and operation and is not always relevant in regional monitoring and investigation. The information obtained that could be useful for a future water allocation plan is usually incidental.

It is important to note that a water allocation plan guides management at the collective, geographic scale. Water licences provide point scale management. The information derived from licence applications will only contribute to a small part of any allocation plan.

Recommendation 7

The Department of Water does not support this recommendation. It does not believe that a system of charging bore owners can be developed in a cost effective way.

The department commissioned a survey of garden bores in 2009. The survey estimated that there are 177 000 garden bores in the Perth region (Research Solutions, 2009. Incidence of Bores in the Perth Metropolitan Area).

Urban development results in increased recharge and therefore the department does not do a lot of management in these areas. While not yet costed, the department's expenditure is only likely to be in the order of \$2 million at most. This would result in an annual charge of about \$11 per bore averaged over 177,000 bores. The costs of administering a scheme are likely to greatly exceed this.

In assessing cost recovery options for unlicensed water users (and garden bores in the Perth region in particular), it is important that the benefits of garden bores should also be considered. The water sourced by garden bores would generally not be used otherwise, and provides a fit for purpose water source that reduces the amount of water that needs to be sourced for the Integrated Water Supply Scheme (IWSS). The costs to the community of managing, sourcing and supplying that water would be substantially greater than the management costs associated with garden bores.

The department notes and agrees with the need to consider the efficiency of any cost recovery method. In the department's view, the only practical way of achieving this is through a water resource management levy added to the Water Corporation annual charges on all metropolitan customers. It is considered impractical to determine the location of the existing 177,000 bores. This levy could also include funding for broader water management activities such as urban water management in existing developed areas.

In noting the ERA's analysis of the minimal potential cost of licensing garden bores without any form of assessment, the department notes that such an option is not possible under current legislation. The *Rights in Water and Irrigation Act 1914* requires the Minister to consider certain issues before approving a licence.

In practice, the total volume of water drawn from domestic bores is considered in the allocation planning process, and included in the total volume of water set aside for use. Depending on the nature of the resource, if domestic bore use is high, less water is available for other uses.

The department also notes that this equity issue extends beyond the Perth region. Garden bores are exempt from licensing in all proclaimed areas of the state with the exception of Exmouth and Albany (which are being reviewed to see whether the exemption could apply these areas also).

The department also exempts (from licensing) stock bores within proclaimed areas (unless the water is being used to support intensive animal industries such as feedlots and piggeries). Licensing low-use widely distributed bores does not enhance resource management.

Riparian rights, springs and (off stream) farm dams are excluded from licensing under current legislation and these create similar management requirements (i.e. the need to manage and monitor water levels / flows).

The department proposes to provide similar rights for all these water uses through reform of water legislation so that they can take water without the need for a licence (Discussion Paper Water Resources Management Options, Information sheet 8).

Recommendation 8

The department supports this recommendation.

Recommendation 9

The department supports this recommendation.

Recommendation 10

The department supports this recommendation.

Recommendation 11

The department supports this recommendation, however, it is important to recognise that the cost of purchase and installation of water meters is not necessarily a one-off. Meters should be replaced periodically in order to maintain performance in accordance with the manufacturers' specifications. Typically the meter will need to be replaced during the bore's life time.

It is also recommended that if the costs of meter reading/water use data collection are to be recovered from licensees, then the costs attributed to the analysis, storage and provision of this data to licensees also be recovered.

In considering implementation of this recommendation, the department notes that some licensees may raise equity concerns. This is because the government has funded the installation of 1250 state-owned meters across the Gngalara Mound as part of a pilot project since 2005. No costs were recovered, and the licensees were informed that they would not be charged for the installation and maintenance of those meters.

There is a minor inaccuracy in the text of section 3.5 at the 3rd paragraph. The National Water Initiative does not require the department to install meters of licence holders with allocations over 50 ML. Rather WA has agreed to this objective through its Implementation Plan to give effect to the state's Metering Policy.

Recommendation 12

The Department of Water supports this recommendation.

Recommendation 13

The department notes that in determining the on-going water management and planning cost (13(b)), the period of amortisation of high cost items (e.g. investigations and allocation plans) will be important to ensure that the fees are affordable.

The costs associated with investigation, environmental water planning and allocation planning for a water resource are considerable, usually millions of dollars in areas with high levels of competition (i.e. C3 and C4 areas). Usually they must occur in advance of significant water demand, to avoid over allocation and similar problems. If these costs are not amortised over an appropriate period, they are likely to be prohibitively expensive. Furthermore, allocation plans deal with the collective impacts at a geographic scale and over a time frame of several years. They are developed to support and manage current use, and also to ensure the resource is protected for the longer term, to support future use and to maintain ecological and social in situ values, and ongoing ecosystem services.

Ideally costs of planning would be averaged across state and over time. While reducing area specific cost reflectivity, this would in effect allow amortisation over a longer period and therefore a lower average fee. This approach would also serve to highlight the public good aspect of allocation planning.

Recommendation 14

The department supports this recommendation and will determine an appropriate split between public and private benefit by the end of May 2010.

Recommendation 15

While the department recognises the benefits of this model and the recommendation is consistent with our earlier submission, it is the most costly option to manage and implement as it requires considerably more data.

The model does have the additional drawback that the application fee may change during processing (should the level of assessment need to be changed).

Another drawback is that it may under-assess the true cost as it does not factor in the cost of future scarcity, or environmental externalities. These could both be seen as public good, and make a case for more than a 'small proportion' to be funded from the 'general public'.

The department therefore considers option 3 in its original submission, i.e. "Volume by Catchment", would be the best option.

Recommendation 16

The department agrees and will endeavour to cost services to large users on a case by case basis.

While many of the direct costs for large users can be clearly identified if the administrative systems are suitably arranged, the indirect costs would be difficult to ascertain. Looking at the example of the Water Corporation's integrated water supply scheme, the direct costs can be identified. However, the Corporation should also bear some costs associated with (for example) the Gngangara Sustainability Strategy and the review of Ministerial Conditions under s 46 of the *Environmental Protection Act*.

Corporate and executive costs would also need to be apportioned (although that should be more straight forward than the matters identified above).

If a broader range of large licence holders seek this option (which would be expected), the department will need to review its administrative systems to allow for these costs to be clearly identified. The issues associated with non exclusive costs will become more complex should the number of users seeking this option increase. In any case, there should be some limit to ensure that this cost segregation does not extend to a level where it becomes a cost burden on the department.

Segregating costs in this way may increase the department's administrative overhead. The department's view is that these costs should be passed onto the licensees involved.

Recommendations 17 and 18

The department is currently working internally and in conjunction with consultants to provide more detailed cost data by the end of May 2010.

Recommendation 19

Should the Government agree with the ERA's final recommendations, the department will implement them accordingly.

Recommendation 20

The department agrees that a revised set of performance indicators would need to be developed should a comprehensive resource management charge be introduced. As such, it will develop a workable set of indicators over the next year. On the indicators as suggested by the ERA we would like to make the following comments:

The department recognises it is important for performance indicators to allow analysis of how well the state's water resources are managed in addition to those measuring departmental efficiency. Such effectiveness indicators have already been introduced for allocation planning.

The absence of such indicators can create the incentive to improve efficiency indicators by reducing the effectiveness of (the unmeasured) water resource outcomes.

While acknowledging that they are difficult to design, the department submits the following for consideration :

- Proportion of water resource management units (i.e. an aquifer layer for the relevant sub area) with a current water allocation plan appropriate to the level of use:
 - Proportion of water resource management units allocated to more than 70% of their sustainable limit with a current R3 water reform or statutory water allocation plan.
 - Proportion of water resource management units allocated to between 30% and 70% of their sustainable limit with a current R2 water allocation plan.
 - Proportion of water resource management units allocated at below 30% of their sustainable limit with a current allocation limit.
 - Proportion of water resource management units allocated at above 100% of their sustainable limit with an enacted recovery strategy.
- Number of water resource management units that are over-allocated as a proportion of total number of water resource management units.
- Percentage of licence compliance monitoring inspections carried out against the standard.

We note the ERA will make recommendations to Government and it is ultimately the Government response to those recommendations which will determine a future direction of cost recovery.

For this reason we would prefer not to develop in depth key indicators but wait until Government has provided that response before developing those indicators.

Recommendation 21

The proposed Water Resources Management Bill may provide clearer, broader and more comprehensive provisions for cost recovery than exist under the current legislation.

Recommendation 22

The department agrees that it is important to involve stakeholders in setting and monitoring indicators and will work with stakeholder groups should Government agree.

Recommendation 23

The department supports this recommendation, however it should again be noted that any independent body can only recommend prices – it is for the Government to set prices.

Kim Taylor
DIRECTOR GENERAL

25 February 2010