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Inquiry into Water Resource Management Charges
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SUBMISSION TO THE INQUIRY INTO WATER RESOURCE MANAGEMENT AND PLANNING CHARGES - SECOND DRAFT REPORT

Thank you for the opportunity to comment on the Economic Regulation Authority's (ERA) second draft report *Inquiry into Water Resource Management Charges (December 2009)*.

The Water Corporation is generally supportive of the recommendations by the ERA in its second report for the recovery of the Department of Water (DoW) water resource management and planning costs. A list of the recommendations is attached to this document, with brief comments made as to the extent to which they are supported by the Corporation.

However, any support is largely contingent on the process by which the DoW's service standards are developed and subsequently delivered. The Corporation does not object to the principle behind the recovery of the DoW costs from private users, provided that the provision of services by the DoW is clearly understood and delivered as agreed consistently State-wide. The Corporation would welcome the establishment of a committee with representatives from the water industry to help develop these standards. It also supports the development of service agreements for large users of the DoW services.

Furthermore, the Corporation does not object to the payment proposed for activities aimed at protecting public drinking water sources, provided:

- The Corporation and the DoW reach agreement each year on the schedule of required activities and their associated costs.
- The actual costs incurred by the DoW are subject to review by the ERA and incorporate an annual efficiency target.
- The Corporation obtain title to any land purchased for the purpose of protecting drinking water sources



To a large extent, this recommendation is an extension of the current practice as the Corporation and the DoW currently agree on drinking water source protection priorities and activities at the beginning of each year and outline duties to be undertaken by each agency. This is confirmed through an Operating Agreement between the two agencies, with the Corporation delegated to undertake a number of activities on behalf of the DoW.

The Corporation supports the changes to the ERA's initial recommendations as they relate to the charging for garden bores and public open spaces. However, it does not support the ERA's decision to reverse its initial recommendation that the DoW reimburse licence applicants for the cost of information provided in making licence applications. The basis for this objection is twofold:

- (1) The Corporation provides detailed information including hydrogeological models and reports to the DoW in support of licence applications around the State. This information is used by the DoW to assist in water resource management and inform the development of allocation plans.

The Corporation does not object to doing these activities where it is the sole beneficiary of the water resource abstraction. However, where there are other potential users of the resource, the cost of this task should be recognised and spread across all resource recipients.

An example of where the Corporation has undertaken activities that are the DoW's responsibility or benefit other water users is the *South West Groundwater Areas Allocation Plans 2009*. The DoW specifically acknowledges the significant investigation and modelling of the system that was undertaken in support of the Corporation's application to abstract 45 Gegalitres from the Yarragadee Aquifer and how that information and model then contributed to the development of the plan. Furthermore, it enabled the DoW to plan for the sustainable management of the groundwater resources.

The Lower Great Southern and Perth regions are further examples where detailed hydrogeological assessments and models prepared by the Corporation are used to assist in the allocation process and setting objectives for the management of other water users accessing the resource.

- (2) Recognising and adjusting charges to reflect the contributions of private parties creates a mechanism whereby the organisation best placed to efficiently complete the resource assessment has a financial incentive to do so. This may be particularly useful if the DoW is restricted in its staff availability or where the private party has a pressing time constraint.

The Corporation recognises that there may be practical considerations in adjusting charges to recognise private contributions, for example, verifying the cost of task undertaken. The Corporation suggests that the best approach to recognising the various contributions may be through the individual service agreement suggested by the Economic Regulation Authority (ERA) for large users. This service agreement could allow for the waiver of charges (licence application and/or annual charge) where parties agree to their respective responsibilities in resource assessments.

Furthermore, with regard to the ERA's recommendation that the DoW charge for the provision of information, the Corporation notes that it often shares adhoc information with the DoW with the information flowing between each organisation in both directions. Recognising this relationship in a large user service agreement, and agreeing that neither party charge the other for the provision of information, would be the a pragmatic approach to dealing with this sharing of knowledge.

The Corporation's final concern does not relate to the pricing principles nor the current charges proposed, but rather to the method by which future prices are calculated. It is recognised that some of these concerns may be addressed in future pricing inquiries:

- It is often risky using just one year (2008/2009) as the basis on which charges are calculated as it may not be a representative year, either for overall charges or for specific services. A mechanism by which charges are based on the average cost over a number of years would be encouraged to deliver a more stable price base. This comment is extended to the ERA's numerous recommendations that the DoW continue to collect data to better assess the accuracy of its charges.
- Whether the DoW has efficiency targets built into future expenditure to encourage a reduction in charges over time. This concern is an extension of an issue raised by the Corporation in its submission to the first draft report, that is, transparency alone is not sufficient reason for charging organisations that predominately service communities residing in the State. Transparency should not be the sole reason for shifting the burden on the general tax base, efficiency and equity need to be demonstrated.

Yours sincerely

Sue Murphy
CHIEF EXECUTIVE OFFICER

Att

Summary of Draft Recommendations

Changes to Draft Recommendations in the First Draft Report

- 1) For public open spaces, water resource management and planning costs be recovered from public funds.

Agreed – this principle should be extended to the provision of services extended to all public open spaces including metering services and licence applications.

- 2) The Department of Water to not reimburse licence holders for the costs of information provided in licence applications.

Do not support – as addressed in the Corporation's submission. Waiving charges on a case by case basis as specified in a service agreement would (in the least) seem the appropriate approach to recognising private contributions to resource assessments where the information is used by DoW to the benefit of third parties.

- 3) The costs incurred by the Department of Water in managing garden bores not be recovered from bore owners.

Agreed – ERA's approach appears pragmatic, recognising the practical impediments to charging for this service and the overall cost/benefit of such an approach.

Accountability, Effectiveness and Efficiency in Water Resource Management and Planning Activities

- 4) The Authority estimates that in 2008-09 the Department of Water incurred a total of \$29.2 million of costs that is considered to be efficiently incurred on behalf of identifiable private parties and provides an appropriate basis for service fees and charges.

Water Corporation trusts the ERA's assessment of this balance and supports an on-going process that encourages the efficient pursuit of service delivery.

Processing and Assessment of Applications for Water Licences and Permits

- 5) The upfront application fees for new 5C licences and 5C licence renewals be differentiated based on the level of effort applied to applications of different risk categories (low, medium or high).

Agreed – subject to recommendation 6; the initial approach taken in setting licence categories appears pragmatic, however, there is scope for refinement.

- 6) The Department of Water to continue collecting data on the level of effort required to assess licence applications of different risk categories. This includes collecting data on groundwater and surface water licence applications, and applications from large customers.

Supported – building on the preceding recommendation, the Water Corporation supports the continued review and refinement of the risk categorisation and suggests that it could be enhanced by reflecting the nature of the resource (i.e. surface/groundwater), level of environmental sensitivity associated with the resource, percentage of resource allocation held by a user and number of users of that resource.

- 7) Other licence and permit application fees be based on the average cost incurred by the Department of Water in assessing and processing each type of instrument.

Partially supported – the standard fee currently proposed for an amendment to a licence and a trade/transfer may be very high in some circumstances. For example, minor licence amendments such as changing a due date to a compliance reporting requirement, or minor surface water trades that do not require resource re-assessments. Further clarification is required to better define the circumstances regarding when the fees are applied.

- 8) The Department of Water to collect data and analyse the results to establish the different levels of effort required to assess and process other licence and permit application fees which are currently based on average costs.

Support the continued refinement of the potential charges and their costs – however alternative approaches should only be pursued where they encourage the efficient delivery of service and/or the efficient use of those services by interested parties.

Providing Water Allocations and Managing the Ongoing Use of Water

- 9) The efficient water allocation planning and environmental water planning costs, and the efficient costs of the other activities that support allocation planning, be recovered annually from users based on the total (aggregated across regions) level of effort involved in undertaking the allocation planning and related activities, but differentiated according to resource management categories and risk level. Appendix G provides information on the impact of the Authority's proposed fees and charges for a range of different licence holders.

Agreed – although note previous comment in regards to recognition of work undertaken by water users that contributes to the planning process.

Licensing of Water Corporation in the IWSS

- 10) The direct licensing costs for the IWSS that are incurred each year by the Department of Water be recovered from the Water Corporation through an annual charge.

No objection noted

Water Metering

- 11) The costs incurred by the Department of Water on behalf of metered customers on the Gngangara Mound and in the Carnarvon Groundwater Area be recovered from those customers, in the form of:
 - an up-front charge per meter to recover the costs of meter supply and installation for new customers (and existing customers when meters are replaced); and
 - an annual charge per meter to recover the average costs per meter of meter reading and maintenance for existing and new customers.

No objection noted

Water Source Protection

- 12) The efficient actual costs incurred by the Department of Water in providing water source protection services be recovered from the service providers (Water Corporation, Aqwest and Busselton Water) at the end of each financial year.

No objection noted – as discussed in the main submission, subject to the Corporation being satisfied with the service agreement process and actual outcome delivered.

Cost Recovery and Indicative Fees and Charges for Other Services

- 13) The efficient costs incurred by the Department of Water in assessing sub-division and development applications, clearing subdivision conditions and local planning proposals be recovered from users of the services. The proposed fee to be based on the Department's average cost of assessment.

No objection noted

- 14) The Department of Water to continue collection of data on the level of effort required to assess statutory referrals with low, medium or high levels of complexity to enable the introduction of more cost reflective fees in the future.

No objection noted

- 15) The efficient costs incurred by the Department of Water in providing information for district planning proposals and regional planning proposals not be recovered from users of these services.

Supported

- 16) As the cost per unit of output for the Department of Water's services to guide urban drainage and management are not available, the costs incurred by the Department in providing these services not be recovered from users at this stage. The Department of Water to continue collection of information about these services and their cost to enable the introduction of fees in the future.

Partial support – drainage management activities are often in the nature of a public good and should continue to be funded by consolidated revenue. Much like the ERA's assessment of charges for public open spaces, the provision of drainage services benefits the broader community.

- 17) The efficient costs incurred by the Department of Water in providing floodplain management advice and water information to private parties be recovered from users of the services, unless the Department of Water provides information which shows that the costs of implementing fees for these services would outweigh the benefits.

Partial support – dependant on the extent to which services provide private benefits.

- 18) In addition, if the provision of water information becomes available for free from the Bureau of Meteorology, the Department of Water to wind back its water information provision service and refer any inquiries to the Bureau of Meteorology.

Supported

Impacts of Fees and Charges and Implementation

- 19) The Authority invites stakeholders to make submissions with information about capacity to pay issues in relation to the proposed water resource management and planning fees and charges.

The Corporation's capacity to pay is initially dependent on the ERA's own assessment of the Corporation's cost base and whether it is appropriate to include DoW's costs into the Corporation's prices.

Given the relatively small proportion that the costs would represent of the Corporation's overall cost of providing water services (between 0.2% to 0.5%) capacity to pay is unlikely to be a significant issue. However, as the Corporation's water prices are currently below the actual cost of its service and significant price increases are already forecast, the ability to absorb further cost pressures in the short/medium term is very limited.

- 20) The Authority recommends that the proposed water resource management and planning charges be phased in over a three year period as outlined in Appendix F.

Noted