"Helping our irrigation industries to grow from Waroona to Dardanup."

HARVEY WATER

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Mr Greg Watkinson
Chief Executive Officer
Economic Regulation Authority
PO Box 8469
PERTH BUSINESS CENTRE 6849

Dear Mr Watkinson
INQUIRY INTO TARIFFS: HARVEY WATER

Thank you for the opportunity to comment on the draft outcomes from the inquiry.

Harvey Water wishes to approach our review from the following perspectives:

- The basic principle established on dam safety expenditure
- The climate effects on South West dams
- The affordability of the fixed charges to irrigators.

1. Basic principle.

An historical note which Harvey Water believes is still relevant is that when negotiations for the privatisation of the irrigation area were underway, it was said that the costs for the dams might be of the order of $17m, which is a very long way from the $150 m estimate just a few short years later. Clearly, those doing the negotiations on behalf of the irrigators would not have signed up for the privatisation if they had known the facts. However, having done so and now being made to pay, leaves an unpleasant feeling about it all.

The third paragraph of the Background section states the principle, which is repeated here for emphasis: *"The intent of the (Bulk Water Supply) Agreement between the Corporation and Harvey Water was to establish a price that irrigators would pay were they, rather than the Corporation, to own the dams."*

Harvey Water contends, without fear of contradiction, that this intent has been honoured more in the breach. Without wishing to unduly rake over old ground, this was indisputably the case in the earlier dam works and, where works and costs were concerned in relation to Drakesbrook and Logue Brook dams, the necessary adjustments to comply with this intent were marginal. At least Harvey Water was invited to some discussions on those works, even if little attention was paid to our concerns and ideas. Some of the recent works are still not working properly.

It remains the case that the great majority of the works were done because the dam owners planned and carried out the works according to their methods and standards, then simply passed the costs on to Harvey Water irrigators.

While Harvey Water reluctantly accepted the outcomes of the initial 2007 review, despite having both then and now major reservations about the derivation and selective application (or otherwise) of some arcane formulae and decision making processes, we do not feel so inclined with respect to Drakesbrook and Logue Brook dams. Since there was little meaningful discussion and involvement by Harvey Water as per the intent of the Agreement, on behalf of the irrigator members, the cooperative does not agree with the extra costs of those works as described in this draft report.

We also point out that there has never been any formal advice to us either in or after the 2007 review that Harvey Water would also be liable for the costs of these two dams.

To state our position clearly and simply, if Harvey Water owned the dams we would not have spent the amount of money and over the short time frame that the dam owner has. This position is not because of a cavalier attitude towards the issues but because Harvey Water simply would not have had the funds.

To make a point about timing, it beggars belief and local knowledge that works needed on the dams were not previously internally known and had remedial action understood for them. However, a major event occurred which was the formation of the Water Corporation as an independent government corporation whose Directors became jointly and severally liable for the risks associated with the dams when a survey formally revealed them. Quite rationally and understandably, they took action to address those risks at that time and over a short time period. However, this is quite at odds with the intent that expenditure should be as if Harvey Water owned the dams.

2. Climate effects on dams.
At the time of the ERA review in 2007, it was said that the dams needed to withstand the probability of the effects of 1500 mm of rainfall in 3 days. These days we are lucky if we get that amount of rainfall in 3 years.

It was also advised that the risk factor employed was a 1 in 10 million chance of the event occurring. This was challenged at the time and still remains a bone of contention, particularly in relation to the risk factors applied to other infrastructure, whether public or private.

Since then the CSIRO has predicted that the median annual streamflow in the South West will reduce by 23% by 2030. Given recent winters, we are arguably at that point already.

The table below shows how average irrigation dam levels have changed in the past 16 years using 2001 as the point when the change became most obvious.

Average dam volumes (GL) pre and post 2001 and % reduction for Waroona, Logue Brook and Wellington dams.

Dam	Pre 2001 (GL)	Post 2001 (GL)	% Reduction
Waroona	12.9	8.8	32
Logue Brook	17.3	10.0	42
Wellington	181.3	145.2	20

These are not just minor seasonal variations but are consistent, real and significant shifts in runoff and dam fill over time and across all dams.

The dam owner has already accepted the reality of this major decrease and taken it into account in its new strategy *"Water forever, whatever the weather"* that will rely on desalination and groundwater, including recycling, with dams relegated to merely a tertiary opportunistic supply and storage role.

So, clearly the question is that if the dams are not filling any more and the dam owner is not much interested in them why has it been necessary to spend all the capital they did and then comfortably pass the cost onto someone else? It is fair to say, that based on the information they may have believed at the time, the Dam Safety Program may have seemed rational and sensible but in fact, it has been an overdone and costly miscalculation.

It also can be fairly argued that the speed at which the dam safety program was formulated and executed is remarkable and quite probably not directly related to the real risk that they posed. It is hard to believe that the dams all posed such an immediate danger to the community. Had the dam owner acted in a more measured way, certainly with revisions of the risk factor with further evidence and thought, then there would have been a more rational outcome.

This is not to criticise that decision at that time but the decrease in dam fill over a short time shows clearly that the scale of risk being ameliorated by the Dam Safety Program is now much less than was then believed. As is well known, the rate of change in the climate has been very rapid and decision making during any time of change is very tricky and risky. It is no shame to say it was the wrong decision for the right reasons.

The dam owner made this unfortunate miscalculation about their dams and other stakeholders should not be made responsible for it.

Harvey Water acknowledges that a significant part of the cost of the Dam Safety Program is borne by government making a Community Service Order payment to the dam owner to cover the shortfall in revenue from other stakeholders, including irrigators.

At this point, it is also important to note that one of the recommendations of the 2007 review was that government should review its portfolio of risks to

provide a coherent and equitable analysis of risks and expenditure needed to ameliorate them. This was because it was acknowledged that the cost of saving a statistical life due to dam safety expenditure was not in any way consistent with that applied to risks associated with roads and bridges, buildings, bush fires, utility services and so on. It was demonstrably much higher for all dams.

For example, it is more than remarkable that nearly $20 m was spent to reduce the risks associated with the 2.29 GL Drakesbrook dam of which most of the cost was transferred to Harvey Water. As a comparison, the 58 GL Harvey dam cost about $100 m to build. It is quite clear that these costs are disproportionate to the water stored and the populations said to be at risk.

Harvey Water also comments that it has no role in the population at risk, which is decided solely by decisions of the relevant shires to allow development in flood risk areas in the event of dam failure. Yet the dam safety expenditure is related directly to this population at risk and irrigators are expected to pay for it. This is unfair and inequitable.

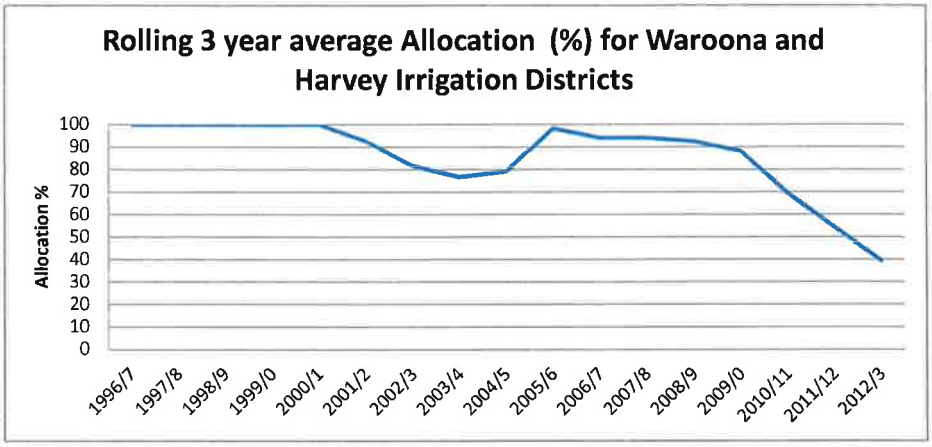
The dam owner made available its conclusions on the population said to be at risk from the collapse of the Waroona dam, which was done by looking at aerial photos in 2001 with the outcome of 570 people. Harvey Water was astonished by this and undertook a ground truthing survey by door knocking and counting residents. The Harvey Water survey revealed only 248 people. The magnitude of the difference left Harvey Water feeling very uncomfortable about the methods employed to justify the works said to be needed.

To date, nothing has been done about the documenting and comparing of government relative risk, at least as far as is known, in the public arena. It is therefore completely unfair and unreasonable to continue to load costs onto one entity within the economy without having some kind of public policy or understanding of the relative risks and the costs of risk reduction for other infrastructure, assets or services.

3. Affordability

The core point in Harvey Water's initial submission to this inquiry was that the fixed charges associated with the Dam Safety Program were unaffordable to irrigators given the continuing low allocations and the poor water quality in Wellington dam.

The graph below shows how the allocation in the Waroona/Harvey Irrigation District, which is fed by Waroona, Drakes Brook and Logue Brook dams as well as Harvey dam has clearly and consistently fallen since 2001.



On average, the allocation has fallen from 100% to 40%. This is of major significance because it means that there simply is not the water in the dams as there was before 2001. All the reputable science says that this is not a short-term aberration but a real and permanent change. Therefore, it follows that the risk of dam failure must also fall with the lower inflows and the scale of repair that has been carried out is a miscalculation.

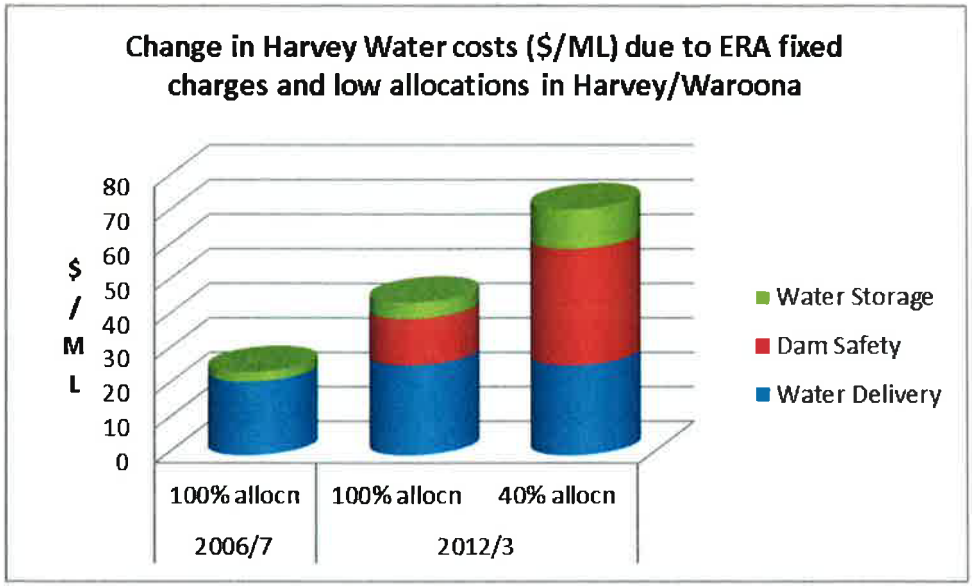
Harvey Water requests ERA to note that in considering the issue of affordability it needs to focus on irrigators, not the company. Harvey Water simply acts as an intermediary on behalf of irrigators whose water it is that is stored in the dams. As it is their water, irrigators must pay the charges. Harvey Water collects them and fully and directly passes them on to Water Corporation on a monthly basis.

The table below shows how the Fixed Charges for Water Storage and Dam Safety increase the effective cost of water as the allocation changes. It is clear that at present allocations (34 to 45%) the effective cost to irrigators increases 2 to 3 times compared to when it is 100%. Harvey Water suggests that the previous affordability study which was part of the 2007 review, did not include or understand the severe affordability effects of lower allocations caused by these fixed charges.

EFFECTIVE COST OF WATER ($/share)TO IRRIGATORS AT DIFFERENT ALLOCATIONS

Fixed Charge	$/share	Allocation %					
		34	40	45	50	75	100
Water Storage	4.53	13.32	11.33	10.07	9.06	6.04	4.53
Dam Safety	13.46	39.59	33.65	29.91	26.92	17.95	13.46
Total Cost	**17.99**	**52.91**	**44.98**	**39.98**	**35.98**	**23.99**	**17.99**

The graph below shows how the Harvey Water cost of water to irrigators has increased due to the cumulative effects of extra fixed charges and low allocations.



Harvey Water is able to manage delivery costs such that they have increased by only 22% over the 7 years, while the ERA fixed charges have increased by 74% at 100% allocation and 329% at the low allocation. These are real and difficult costs for irrigators to absorb and remain profitable.

Expressed another way, about half of Harvey Water's annual revenue of about $4m is for these fixed charges which are passed straight through. This does not include asset levy revenue to the separate cooperative business, SWIAC.

Irrigators in the Collie River Irrigation District (CRID) also have a problem with the fixed charges. While they have always had 100% allocation it is for very poor quality irrigation water in Wellington dam. Their concern is that relative to irrigators in the Waroona/Harvey district (<200mg/l) they pay the same per megalitre but receive much poorer quality water (1100 mg/l). Harvey Water has been at pains to explain that the charges are for storage and safety, which are irrespective of the quality of the water. Nonetheless, their perception of the inequity is real and fair.

As well as the comments above, Harvey Water requests that ERA considers and fully addresses the affordability issues that were the major part of our initial submission.

Please contact Harvey Water if you would like more information.

Yours sincerely

Geoff Calder
GENERAL MANAGER

Inquiry into the Efficient Costs and Tariffs etc

From Harvey Water: pp100 to 110

CORRIGENDA:

1.4.2 Charges to HW
Last para. HW has not previously paid for costs relating to Samson and Stirling so this is not a saving or reduction.

Note 111: We actually have 733 members

Figure 6.1 Harvey Water does not own and manage the dams shown although they are the ones where our water is stored. They are owned and managed by Water Corporation with whom we have an agreement that provides us with ownership and responsibility for the water below the release valve.

6.2 The DSP
Para 3 – the Agreement doesn't make reference to the ANCOLD Guidelines.

6.4 Allocation of costs.
Dot point 1. HW does not provide potable water nor does it knowingly provide water to households. It provides irrigation, industrial and community water, Stock & Garden water but not Stock & Domestic water.