

HARVEY WATER BULK WATER PRICING INQUIRY TERMS OF REFERENCE

I, ERIC RIPPER, Treasurer, pursuant to section 32(1) of the *Economic Regulation Authority Act 2003* (the ERA Act), request that the Economic Regulation Authority (the Authority) undertake an inquiry and make recommendations on the most appropriate level and structure of water storage charges to the South West Irrigation Cooperative (Harvey Water). In doing so the Authority is expected to consider and develop findings on:

1. The cost of operating and maintaining the irrigation dams, based on:
 - a. a “renewal costing” methodology which carries forward the model used for the 1996 Bulk Water Agreement;
 - b. a “full costing” methodology, consistent with National Water Initiative pricing principles, including efficient operating costs and capital expenditure requirements and a suitable rate of return on past and future investment in storage and distribution assets owned by the Water Corporation.
2. The additional costs associated with maintaining and improving dam safety for the Water Corporation’s South West Irrigation Dams. This should include consideration of:
 - a. the requirements of the current Australian National Committee on Large Dams (ANCOLD) dam safety guidelines and the requirement for the Water Corporation to manage their dams to these guidelines; and
 - b. the overall merits, for all parties, of alternatives to the ANCOLD dam safety guidelines.

These considerations should utilise existing studies, including:

- a. Marsden Jacob Associates August 2003 “Review of Dam Safety Program Relating to South West Irrigation Dams”; and
 - b. Snowy Mountains Engineering Corporation July 2006 “Evaluation of Alternative Risk Management Strategies”
3. The cost sharing arrangements between beneficiaries of the South West irrigation dams, including:
 - a. customers that benefit from the water stored in the dams and how this may change over time with water trading;
 - b. the recreational and other social benefits to the community of the dams; and
 - c. the beneficiaries of dam safety expenditure, including an assessment of those who benefit from the use of the dams and those that benefit from a reduced risk of flooding.
 4. The ability of South West irrigation farmers and Harvey Water to meet their share of the costs determined from 1 and 2 above, and the impact on customers of the rate of change of an increase in prices (if any).
 5. The impact on the State Government’s net financial position associated with the recommended price level and structure.

The Authority is to have regard to the Government's social, economic and environmental policy objectives.

The Authority will release an issues paper as soon as possible after receiving the reference. The paper is to facilitate public consultation on the basis of invitations for written submissions from industry, government and all other stakeholder groups, including the general community.

A draft report is to be made available by 30 November 2006 for further public consultation on the basis of invitations for written submissions.

A final report is to be completed by no later than 1 March 2007.