

13 January 2006

Mr Greg Watkinson
A/Director, References & Research
Economic Regulation Authority
6th Floor 197 St Georges Tce
PERTH WA 6000

Dear Mr Watkinson

COUNTRY WATER & WASTE WATER PRICING INQUIRY

Please find attached some summary notes which address the issue of irrigation water in relation to country and IWSS water.

Harvey Water firmly believes that the type of off-hand and superficial comments which occurred in the recent Urban Water Pricing Inquiry should not be repeated in this current inquiry without a great deal more consideration.

Please contact me if you would like further information.

Yours sincerely

Geoff Calder
General Manager
HARVEY WATER

COUNTRY WATER PRICING

This study is about Water Corporation pricing for domestic and other uses which has little relationship with Harvey Water and irrigation water pricing.

However Harvey Water noticed some gratuitous and contentious comments about irrigation water trading in the recent ERA review on urban water pricing and felt that this could happen again. Harvey Water wishes to make our summary views clearly known to forestall any unwarranted and unwanted straying into this area.

Harvey Water's view is that most of the economic studies on irrigation water pricing in WA are superficial in that they are based on sloppy concepts and unproven articles of faith which lead to fatal fallacies and weaknesses.

DUBIOUS CONCEPTS.

There is an economic theory which says a good should move to its highest and best value use. There is then a leap of logic, when this theory is applied to irrigation water, which says that, *ipso facto*, urban use of water is a higher and better use of water than regional use of water.

This is a crock of the proverbial which needs examination.

Urban use of water is largely based on households. Data from government agencies suggests that domestic use can be broken down according to the table below:

Table 1: Average Urban household domestic use of water (% of total)

Consumptive use	% of Total
Tap – potable drinking & cooking	7
Toilet	9
Washing Machine	11
Bath & Shower	14
Swimming Pool	2
Other	1
Leaks	2
Watering	54

Source: Domestic Water use Study; Water Corporation; March 2003

It should be first noted that all the water used in the analysis above is treated to the highest possible standards of potability, although it is clearly arguable that only 7% of water, used for drinking and cooking, really needs to have that quality

standard. The cost of treating all water in this way needs to be acknowledged, compared to untreated irrigation water.

It is fair to say that the use of water for potable reasons is a higher and better use than for irrigation.

It is definitely not reasonable to then suppose that all or any of the other domestic uses are a higher and better use than for irrigation and it is something that is not simply acceptable by bald statement. The use of highly treated water for amenity and cosmetic purposes, as a higher and better use, is not supported by any analysis.

The whole issue is not about higher and better use but about capacity to pay. Urban populations are prepared to pay exorbitant amounts of money for water, not supported by any rational behaviour, eg imported bottled water sells for the equivalent of over \$5 million per Megalitre whereas a Harvey Water irrigator typically pays about \$43 per Megalitre for untreated water. Alternatively, where people can access perfectly good and healthy potable water from the tap at 70 cents per kilolitre, many elect to buy it bottled at the equivalent of \$5 000 per kilolitre. This is clearly treating water as a luxury product rather than as an essential right.

And the question then can be asked would urban dwellers pay \$5 000 per kilolitre to flush their toilets or water their gardens? Clearly they would not.

If irrigators are expected to pay urban like costs to compete on an open market for water, then clearly and simply, the irrigated food production capacity (the fresh food 2 fruit and 5 veg a day) we are exhorted to eat by our health agencies will just evaporate. We will be faced with importing our food, which then will not be fresh.

PRICE, VALUE, COST & CAPACITY TO PAY

We should be very careful to separate the different concepts of water price, cost, value and capacity to pay when we are considering the economics of water trade. They are not the same things at all. It may be possible to obtain a higher sale price in the city for water for gardens or road verges but that is a completely different argument to the return that society obtains from the production of fresh food.

If there was a really huge water shortage would people prefer to use available water for their gardens or for the production of fresh vegetables? The answer lies in our history when every home, and farm, had a vegie garden but the types of domestic gardens we see today were luxury items.

WATER AIN'T WATER

Water, therefore, isn't uniformly water as is commonly, and superficially, assumed. Neither is irrigation or rural use water uniformly available for IWSS type uses, as again is often assumed.

For example, the water that farmers collect in farm dams in the wheatbelt is not readily or economically aggregated and transported to urban use. Neither is water drawn from farm bores in fruit and vegetable territory such as Manjimup. Water used by irrigation cooperatives in Kununurra, Carnarvon, Harvey and Preston Valley isn't readily available for IWSS type use, except for Harvey Water but excluding poor quality water from Wellington dam. Water from Gngangara Mound may be economically converted from irrigation to domestic uses.

Harvey Water urges economists, who may be tempted to stray slackly into comments on trade of rural water, to hold their fire until the concepts are more soundly considered.