

NOTICE

Inquiry on Harvey Water Bulk Water Pricing

DRAFT REPORT

The Economic Regulation Authority today published a draft report on its inquiry into the most appropriate level and structure of water storage charges to Harvey Water. A copy of the report may be accessed on the Authority's web site by clicking [here](#).

The Terms of Reference for the inquiry require the Authority, in making its recommendations, to take into consideration:

- the cost of operating and maintaining the irrigation dams;
- the additional costs associated with maintaining and improving dam safety for the Water Corporation's South West irrigation dams;
- the beneficiaries of the South West irrigation dams;
- the ability of South West irrigation farmers and Harvey Water to meet their share of the costs of dam safety improvements and the impact on farmers of an increase in prices (if any); and
- the impact on State Government's net financial position associated with the recommended price level and structure.

The draft report presents the preliminary views of the Authority regarding the appropriate method for determining charges in the Bulk Water Supply Agreement (BWSA) between the Water Corporation and Harvey Water. The focus of the Authority has been on developing the correct framework and approach to the analysis. The purpose of the draft report is therefore to present a picture of the Authority's thinking at this stage of the inquiry, to encourage comment and debate on the appropriate approach to the issues.

Some of the key preliminary views of the Authority are as follows.

- It would be appropriate to apply the National Water Initiative upper bound pricing principle for the purpose of determining the costs of operating and maintaining the irrigation dams.
- It may be appropriate to phase-in the upper bound charges over a reasonable period, such as ten years.
- Given that the proposed expenditure on dam safety is subject to significant diminishing returns, it is likely that the timing and sequencing of the dam safety programme could be better aligned with opportunities to improve life safety across the whole Western Australian economy.

- There is merit in the State Government developing a whole-of-government approach to the regulation of safety standards, which incorporates comparable measures for expenditure on life safety throughout the WA economy.
- Pending wider considerations about the regulatory arrangements that could be implemented to guide expenditure on safety (and which could reduce the net present value of dam safety costs), it is appropriate to base the new BWSA on the assumption that a certain proportion of the dam safety costs are passed on to users.
- It may be appropriate to use a measure other than water allocations as the basis of allocating the costs of providing dam services to users.
- Given that the mix of fixed and variable charges is primarily a commercial issue to do with managing the volume risk of uncertain annual streamflows, it is unlikely that there is any reason for the Government to prescribe the structure of charges that the Corporation applies to Harvey Water.

The Authority welcomes submissions on these and other preliminary views presented in the report. In addition, the draft report identifies a number of issues where further consideration is needed, and invites comments on these. These issues concern, in particular, the appropriate allocation of the costs of providing dam services, the estimation of recreational benefits and the analysis of impacts on users.

Submissions are invited from stakeholders, industry, government and the general community, and should be received no later than **Wednesday 31 January 2007**.

The Authority will deliver the final report for the inquiry to the State Government by 1 March 2007. The Government will then have 28 days to table the report in Parliament.

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