



Our ref: TBA
Enquiries: Matthew Stubbs, 6364 7146

Mr Lyndon Rowe
Chairman
Economic Regulation Authority
Level 6, 197 St Georges Terrace
PERTH WA 6000

Dear Mr Rowe

RESPONSE TO ERA DRAFT REPORT: INQUIRY ON HARVEY WATER BULK WATER PRICING

The Department of Water (DoW) thanks the Economic Regulation Authority for the opportunity to provide comment on the draft report on the Inquiry on Harvey Water Bulk Water Pricing.

As is discussed in the ERA's draft report, the issue of what is an appropriate and efficient level of dam safety expenditure from a community-wide perspective is significant in the context of developing a new Bulk Water Supply Agreement. The analysis in the draft report raises questions about the efficiency (in terms of managing overall public safety risks) of implementing the dam safety program required to comply with the Australian National Committee on Large Dams (ANCOLD) Guidelines as they currently stand.

An important characteristic of the ANCOLD Guidelines is their prescriptive nature. Dam owners appear limited in their ability to implement dam safety programs based on assessment of the likely costs and benefits of meeting the ANCOLD safety standards. The draft report notes 'the requirement for dam owners to meet the ANCOLD limits of tolerability with regard to dam safety, in the absence of a Government decision to exercise the exceptional circumstances, is absolute and does not have regard to costs'. While alternative dam safety regimes (often based on the ANCOLD Guidelines) have been introduced in other jurisdictions, alternatives of this nature are not available to the Water Corporation to guide its dam safety program. As noted in the draft report, the absence of alternative, and potentially more flexible dam safety regimes, and the existence of tort liability for dam owners, means that the ANCOLD Guidelines become the, *de facto*, standard for the Water Corporation.

The evidence cited in the draft report indicates that there may be inefficiencies, from a community-wide perspective of managing public safety, of implementing a dam-safety program compliant with the ANCOLD. The preliminary finding that dam safety is subject to significant diminishing returns, suggests that there could be substantial costs associated with relative minor reductions in risk. The draft report also arrives at the preliminary finding that application of the ANCOLD Guidelines gives rise to a substantially greater amount of expenditure on dam safety in comparison to expenditure on safety elsewhere in the economy.

While inefficiencies might exist, the size and significance of these inefficiencies is unclear from the draft report. If they are indeed substantial, it may well warrant Government involvement in the development of alternative dam safety guidelines. Given this, the DoW

strongly supports the further investigation into the extent of possible inefficiencies of the dam safety program from a community wide perspective. The DoW also supports further investigation into alternative dam-safety guidelines that have a greater capacity to balance the benefits of risk reduction against the costs of reducing risk. As noted in the draft report these measures might include:

- State-based specific alternatives to replace reliance on the ANCOLD Guidelines. As noted in the draft report, other jurisdictions have legislation or directions to specify alternative risk-based measures (often based largely on the ANCOLD Guidelines and principles). One potential advantage of this type of legislation is that it would enable to the Government to enable the use the 'exceptional circumstances' provisions within the guidelines, providing for more discretion on the part of dam owners.
- Moves towards a whole-of-government risk assessment, as suggested in the Department of Treasury and Finance submission, where comparisons on safety expenditure are made across a number of areas to determine where the expenditure can most effectively be made.

With regard to the issue of the correct pricing methodology, DoW's principal concerns are that a pricing methodology is adopted that facilitate efficient water use and is consistent with National Water Initiative principles and commitments.

The preliminary view of the ERA that an upper-bound approach based on full costing and a deprival value, appears consistent with the considerations of promoting efficient pricing for water storage services provided by the Water Corporation and of meeting NWI commitments. However, the draft report only provides an indication of the possible outcomes of adopting such an approach, noting that 'there may need to be a transition to upper bound pricing if Harvey Water's current charges are significantly lower than the upper bound level'. DoW supports this approach, emphasising that if upper bound pricing is recommended, it should be introduced gradually allowing for adjustment for irrigators and Harvey Water.

The DoW looks forward to the ERA's final report.

Yours sincerely

Hazel Kural
Manager, Water Reform Taskforce
30 January 2007