



Mr Lyndon Rowe  
Economic Regulation Authority  
Level 6, Governor Stirling Tower  
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PERTH WA 6000

Dear Mr Rowe

**INQUIRY ON COMPETITION IN THE WATER AND WASTEWATER SERVICES SECTOR**

Please find that this letter refers to the *Further Consultation Report on the Establishment of an Independent Procurement Entity*.

The Department of Water (DoW) appreciates the opportunities that the Economic Regulation Authority has made for consultation on this important recommendation. This consultation, through meetings and correspondence, has already addressed a number of issues raised in the consultation report and these include:

- **Reservation of water for future public water supply**

The protection of future public water supply requires land use management and the restriction of some activities which might degrade the quality of surface and/or groundwater. Further, the DoW does not regard access to and the supply of potable water as a pure economic good. The basic human right of access to affordable water for future generations also needs to be taken into account in water policies. It is a value judgement as to whether this generation has the right to use up lower cost water supply options and leave future generations with the higher cost options, especially in regional areas where there are higher infrastructure costs.

- **Unequal treatment of existing water users**

The DoW does not accept the view that the Water Corporation has been treated unfairly in any of its administrative practices for the Gnangara Mound or elsewhere. To the contrary, the Water Corporation is in a privileged position compared with other water licence holders.

- **Administrative policies for water allocation**

It is generally acknowledged that in an effective water market the DoW would have to change a number of administrative policies which would be overly prescriptive and interventionist. Any impact on the way in which the DoW currently administers the water allocation planning function is a matter to be worked out in context at the time.



- **Use of administratively efficient targets in source development planning**

A central theme of both the State Water Strategy and the National Water Initiative is to recycle and use water wisely, including the State Government having a water recycling target. Market mechanisms have great difficulty in accounting for these type of environmental and social outcomes. Also, the efficiency and recycling programs apply to self use in irrigation, mining and industry making up a significant part of the State's water use. These programs would not logically be addressed in the water market proposed for the Independent Procurement Entity (IPE).

On the proposal for demand management and rebates schemes for water use efficiency to be transferred from the DoW to the IPE, there would be an inherent conflict of interest in having these programs and initiatives located in and administered by an agency that has a purely economic/commercial focus rather than a broader public interest focus, including sustainable water use and environmental protection.

As a general comment, the DoW is unconvinced and unsure that the IPE will be effective in its proposed role for a number of reasons:

- first is whether the expected investment by the private sector will emerge. There remain strong impediments to private sector investment, including the rate of return on capital vis-a-vis alternative investment opportunities, a lack of depth of players in the water market, access to capital, technical constraints imposed by the complexity of the IWSS network and a continuing privileged position of the Water Corporation in retail services. The ERA itself acknowledges that the private sector may need a "risk premium" to participate in source development;
- second, during a period of greater uncertainty in water supply planning and availability the transition to the IPE model offers the potential to be disruptive and the change process could result in a more complex and uncertain management environment that would need to be carefully managed by the Water Corporation and the DoW. There would need to be a clear net benefit to offset this additional uncertainty and risk; and
- finally, the role envisaged for the IPE is a discrete and intermittent process which would not justify the establishment of a dedicated agency. Also, by locating the IPE in an agency such as the existing Independent Market Operator for energy may result in a loss of synergy, capacity and strategic priority.

The DoW looks forward to the final report of the ERA.

Should you have any queries in regard to this matter please contact Mr Shane O'Donohue, Industry Development, Policy and Planning, the Department of Water, on telephone (08) 6364 6814.

Yours sincerely

Kim Taylor  
**DIRECTOR GENERAL**

16 May 2008