



Submission to the Economic Regulation Authority's Issues Paper

Inquiry into Water Resource Management and
Planning Charges

12 June 2009



1. Introduction

The Water Corporation (Corporation) offers this submission in response to the Issues Paper prepared by the Economic Regulation Authority (ERA) as part of its Inquiry into Water Resource Management and Planning Charges published on 30 April 2009.

2. Overview

The introduction of water resource management and planning charges represents an opportunity to ensure greater transparency and accountability in water resources management. As a key customer of the Department of Water (DoW), the Corporation would support the introduction of water resource management and planning charges, subject to them being:

- based on the efficient cost of delivering the services – it is the Corporation’s view that it would be appropriate for the ERA to review the efficiency and effectiveness of the service delivery; and
- applied equally to all water users – public water supply customers should not bear a disproportionate percentage of the costs, based on a perceived higher ability to pay. Charges should incorporate the direct cost of providing the management and planning services where possible (e.g. application and administration charges should send a price signal of the costs associated with providing the service) and any remaining cost recovery should be based on the allocated share of the resource.

The Corporation’s support is conditional on the view that efficient water resource management and planning costs can be captured, so that the true cost of developing water sources and supplying customers can be reflected.

Payments made for the delivery of water resource management and planning services should also provide adequate funding for DoW to ensure the provision of these essential services.

It is not appropriate to identify the services performed by the DoW that should be included or excluded in the charges through a written submission as this could only be done at a superficial level. The identification process needs to be more detailed and interactive, and needs to be related to the charging method to be adopted. The Corporation proposes that identification should be undertaken collectively and interactively through a “round table” process or a “working group” with the relevant stakeholders prior to completion of the Draft Report (due September 2009).

3. Individual Issues

What is Water Resource Management and Planning?

What are the key elements of water resource management and planning?

The key elements can be identified in the context of the “Framework for Water Planning and Water Resource Management”, as outlined by the National Water Commission (NWC) in the *Water Source and Delivery Charges and Water Planning and Management Costs in the Rural and Urban Water Sectors in Australia* (February 2007) report, and referred to in the more recent Australian Competition and Consumer Commission (ACCC) report, *Draft Advice Water Charge Rules for Water Planning and Management* (May 2009). The Corporation concurs in principle with the framework identified by the NWC and the ACCC.

What activities of the Department of Water fall within the scope of water resource management and planning?

Which planning and management expenses incurred by the Department of Water are for the sustainable management of the State’s water resources?

In determining the activities of the DoW that fall within the scope of water resource management and planning, reference can be made to the NWC and ACCC reports (as mentioned above) which, in addition to identifying a framework, identify the activities relevant to water resource management and planning. Again, the Corporation concurs in principle with the activities identified by the NWC and ACCC.

It should also be noted that although the DoW is the recognised “water resource manager” in Western Australia, a percentage of the water resource management and planning duties of the DoW are currently being carried out by the Corporation, either through imposed licence conditions or due to inadequate DoW capacity to undertake urgently needed activities. The scope and magnitude of the activities being undertaken by the Corporation on behalf of the DoW should be examined further (particularly for work conducted on shared water sources) as an input to the appropriate cost recovery methodology.

Section 3.6 of the Issues Paper indicates that the DoW has various functions under the *Water Services Licensing Act 1995* including the development of codes for the planning of secure supplies. Such provisions do not exist in the legislation, but are proposed in the new Water Services legislation. The Corporation has no particular objection to the introduction of codes as a means for the Minister to impose requirements consistent with Government policy on water services licensees, provided that the codes are consistent with the *Water Corporation Act (1995)* (as amended) and the by-laws, regulations and orders made under the new *Water Services Act*.

What is the role of the Department of Water in comparison to the role of other large water users and water service providers?

The roles and responsibilities of the DoW need to be clearly defined before any charges or fees can be established. As discussed above, many of the activities outlined in the ERA Issues Paper (Table 2.1, p9) are currently being performed by the Corporation. For charging, either the Corporation needs to be recognised as having the responsibility for the activities it is currently performing (and charges are adjusted accordingly) or these duties should revert to the water resource manager, and be captured in the appropriate charge.

What Water Resource Management and Planning Costs should be allocated to Users?

Which tasks or activities undertaken in the efficient management of the State's water resources, by the Department of Water, are appropriately recovered from water users?

What costs of the Department of Water's resource management and planning activities should be allocated to users?

There should be a clear and documented understanding of what functions DoW is expected to perform, the timeframe in which they are to be delivered, and the individual activities that can be charged for.

Rather than providing a high-level list of the numerous resource management and planning activities performed by the DoW that should be included/excluded in the charges, the Corporation instead proposes that the ERA conduct a "round table" process or forms a "working group" with the relevant stakeholders prior to completion of the Draft Report (due September 2009). It should also be recognised that the answer to this question is related to the charging approach to be adopted.

Due to the limited time available between the release of the Draft Report and the Final Report (due January 2010), it will be difficult to properly investigate, actively discuss and potentially resolve any polarised points of view relating to the inclusion/exclusion of certain DoW activities after the release of the Draft Report. Therefore, it is the Corporation's view that the inquiry process will be enhanced with detailed discussions between the relevant parties as an input to the Draft Report.

The National Water Initiative (NWI) excludes the costs of policy development and Ministerial or Parliamentary services from the costs of water management and planning, from the costs that would be recovered from water users. However, different jurisdictions have varying interpretations of the NWI. For example, in New South Wales various operational policies or initiatives (e.g. preparing water management guidelines, setting water sharing plan rules) are recurrent or ongoing in nature and are therefore considered to be an integral part of water planning and management. As such, a share of these costs is passed on to water users.

In Western Australia, State-wide Policy 16 now requires a certain level of water use efficiency as a part of water allocation licences, so some recuperation of these associated costs could be justified.

The Corporation would like to have an influence on the activities it will be paying for, either directly through the purchase of specific services, or indirectly on the setting of priorities for the DoW to align with those of the Corporation. This would involve identifying priority Water Resource Management Plans (WRMP) and Drinking Water Source Protection Plans. In addition, the Corporation would like to agree with the DoW on appropriate timetables for completing plans and ensuring that plans are indeed finalised.

How should Water Resource Management and Planning Charges be Designed?

What is the appropriate method of cost recovery?

In designing a charge for water resource management and planning activities, the Corporation would support the following pricing structure:

- **One-Off Charges** – charges for specific service requests, e.g. new water licence applications. Where possible these charges should be cost reflective, but with consideration given to the additional administrative costs involved in calculating the costs for each request. Using licence applications as an example, the following structure may be considered:
 - Small Licence Applications – a uniform state-wide charge, based on the average cost of assessing new, smaller applications; and
 - Large Licence Applications – a cost reflective charge based on the efficient cost of processing the new request for the specific applicant. The charge would signal to the applicant the cost of the task requested, and entitle the applicant to insist on a certain level of service (e.g. response time) in return.
- **Annual Charges** – charges for the provision of ongoing resource management and planning activities. Again, where possible these charges should be cost reflective, but with consideration given to the additional administrative costs involved in calculating the costs for each customer, specifically:
 - Small Entitlements – a uniform state-wide charge, based on the average cost of providing ongoing resource management and planning activities for small entitlements; and
 - Large Entitlements – a charge based on the annual water entitlements as a proportion of the total resource. This should be resource-specific so that

high water users in areas with low planning and management costs do not bear a disproportionate percentage of the average state-wide costs.

In addition to the charges above, the ERA should consider whether the Corporation and others (such as mining companies) should get a credit for the expenditure incurred privately on the management and/or investigation of shared resources.

The Corporation is of the view that the ERA would be best placed to determine the most appropriate “cut-off” points between the small/large applications and the small/large entitlements, so that the appropriate trade-off between simplicity of charges and accuracy of charges is struck.

Central to any charges will be the obligation to demonstrate that these costs were incurred efficiently, with care taken to ensure only the costs from the relevant activities are captured.

Cost recovery based on the size of the customer’s client base and/or perceived ability to pay may result in a distortion of water trading markets and result in an inefficient allocation of the water resource. While ability to pay is an important factor when considering cost allocation between customer groups, the ERA should ensure:

- all customers for the same service (e.g. water access entitlement) are treated on a like basis; and
- cross subsidies between services, different customer bases and different activity types (e.g. water, flood plain management and drainage) should be avoided.

From an efficiency perspective, a charge from a water resource manager is only important where it signals the cost of the magnitude of the work undertaken by them in responding to a particular service request.

In the absence of an effective cost signal, justification on grounds of equity is typically based on ensuring the cost of the management and planning of water resources is paid for by the users of that service. Given that the ultimate users of the service are predominately the citizens of Western Australia, and that these users are the same people who currently contribute to the cost via tax appropriations, there is limited justification on equity grounds.

However, a charge for ongoing services can be justified on the basis of ensuring the ongoing funding of adequate resources towards the provision of essential services by the water resource manager. A charge represents an opportunity to ensure greater transparency and accountability in water resources management by the customers of that service.

What Form of Regulatory Arrangements would be appropriate?

What regulatory arrangements should be considered to assist the Department of Water achieve high service standards and efficiency in operations?

The Corporation is of the view that the ERA is best placed to provide the regulatory oversight to ensure deliverable and efficient service standards, as part of a periodic review of the charges (e.g. every three years).

In this regard s.68 of the NWI requires signatories to report publicly on cost recovery for water planning and management as part of annual reporting requirements, including:

- the total cost of water planning and management; and
- the proportion of the total cost of water planning and management attributed to *water access entitlement* holders and the basis upon which this proportion is determined.

This is reinforced and expanded upon in the ACCC's Draft Advice (May 2009) to the Federal Minister for Climate Change and Water:

"...in the context of current arrangements and in light of the Minister's power to regulate, the most appropriate action to take at this time is an approach focused on improving the transparency of water planning and water management activities, costs and charges. This approach would advance the Basin water charging objective of achieving pricing transparency in respect of cost recovery for water planning and management through the publication of increased and consistent information about water charges and the reporting of improved information about water planning and water management costs and cost recovery arrangements."

However, in addition to cost recovery (as raised by the ACCC above), the issues of service quality, service delivery time and service standards need to be considered.

Implementation

How would water resource management and planning charges impact on different types of users?

As previously discussed, the Corporation is of the view that any water resource management and planning charges should be applied equally to all users of a particular water resource management or planning service. As such, public water supply customers should not be allocated a disproportionate percentage of the costs due to a higher perceived ability to pay.

For those customers with a limited ability to pay, it may be appropriate that an arrangement similar to the Corporation's CSO mechanism be put in place to ensure any

discount afforded to one customer group is paid for by the Government (out of the general tax base) rather than coming at the expense of another customer group. The cost of such a CSO payment is already indirectly incorporated into the current funding arrangements, and would simply be making the current taxpayer funding explicit.

While the Corporation anticipates that any water resource management and planning charges would be passed on to customers through price increases, the Corporation is mindful of the impact of any price increases on its customers, particularly lower-socio economic customers. Page 30 of the Issues Paper provides a 2002/03 estimate of the cost to be allocated to water service providers of \$15m out of a total cost of \$46m (33% of costs compared to 17% of usage). If management costs to be recovered through the charges have doubled since that estimate, this represents a general increase in the Corporation's charges in the order of 3%.

Finally, when implementing any new charges, the Corporation should not be required to act as the billing mechanism between other organisations and the DoW.

What issues would need to be considered in implementing water resource management and planning charges under the existing legislation?

What provisions would any future legislation need to make for the possible implementation of water resource management and planning charges?

Care would need to be taken to ensure that any future legislation which may set up mechanisms for the recovery of costs associated with environmental externalities (an issue outlined in the NWI) does so in a manner which does not see water users paying for the cost of environmental externalities twice i.e. under environmental externality charges and under water resource management and planning charges.