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24 June 2009

Mr Lyndon Rowe
Inquiry into Water Resource and Management Charges
Economic Regulation Authority
PO Box 8469
Perth Business Centre
PERTH WA 6849

Dear Mr Rowe

ISSUES PAPER: INQUIRY INTO WATER RESOURCE MANAGEMENT AND PLANNING CHARGES

Thank you for the opportunity to provide comment on the Issues paper: Inquiry into Water Resource Management and Planning Charges (the Inquiry).

The Department of Agriculture and Food (the Department) considers the payment of charges for specific and appropriate services by water users will assist in providing access to a long term secure and reliable water supply to sustainably grow the agri-food industry in Western Australia.

The Department has reviewed the Inquiry and provided a detailed response in the attached document (Attachment 1). To summarise, the Department supports in principle:

- The implementation of cost recovery in alignment with National Water Initiatives (NWI) principles and to foster economic efficiency, transparency in process and improved levels of service.
- The user pays principle with full cost recovery when considering administrative functions. Therefore costs that occur for a specific purpose (e.g. licensing) should accrue to the user.
- Costs associated with broader activities in water resource management require a different assessment. For example, costs for water resource management will include investigations into environmental values resulting in an environmental allocation. These costs should be allocated to the environmental sector and funded by government.
- The development of a transparent framework for allocating costs for water management and planning. This could be based on the impactor pays approach since it is considered to be a more predictable method than the beneficiary pays and less prone to inducing incentives which distort the costs.
- The application of cost recovery through a uniform state-wide charge.
- The use of volume of entitlement as the charging base with charging units in a sliding scale.

Natural Resource Management

- The development of a charter of service standards and efficiency in operations to be monitored by an independent organisation.
- A sensitivity analysis to identify the impacts on the viability of the farm business or any secondary unintended consequences.

Should you require any further information please contact Ms Linda Lee on 9368 3358 or linda.lee@agric.wa.gov.au .

Yours sincerely

Eric Wright
A/EXECUTIVE DIRECTOR
NATURAL RESOURCE MANAGEMENT

Attachment 1: DAFWA submission on the Inquiry into Water Resource Management and Planning Charges (30 April 2009)

DEPARTMENT OF AGRICULTURE AND FOOD SUBMISSION ON THE INQUIRY INTO WATER RESOURCE MANAGEMENT AND PLANNING CHARGES (30 April 2009)

The Department of Agriculture and food (the Department) recommends the development of an over-arching framework to address water resource management and planning charges. This will be comprised of a number of elements which are described below.

1. Key elements for water resource management and planning to be considered

The Department has reviewed the main activities within the Department of Water (DoW) function areas. (Table 2.1) The Department considers that a proportion of the costs associated with activities of the following five functions are directly attributable to water users:

1. Assess, allocate and license
2. Manage flooding and drainage
3. Manage water quality
4. Policy advice and reform
5. Support water service industry.

The Department suggests that a framework should be developed to identify the proportion of costs attributable to water users.

Some DoW activities support specific water user groups and have limited or no benefit to other users. For example water service providers benefit from: water source protection planning, managing customer complaints against service providers, and issuing exemptions for water services licenses. The framework could address this issue by differentiating between different users (e.g. water service providers and other water users) and different water source users (e.g. surface water and ground water users).

Other costs such as costs for water resource management will include investigations into environmental values resulting in an environmental allocation. These costs should be allocated to the environmental sector and funded by government.

2. Designing water resource management and planning costs allocated to users

The Department has briefly reviewed water planning and management approaches in other Australian states.

- New South Wales (NSW) is achieving higher rates of cost recovery than other states using a cost recovery on source by source basis.
- Tasmania requires calculation of fee units for a variety of cost recovery scenarios.
- Queensland has many discrete categories of cost recovery.

To avoid complexity, the Department supports developing the simplest possible framework of cost recovery to achieve National Water Initiative (NWI) principles of cost recovery.

2.1. Cost recovery for water licensing processes:

The Department supports the user pays principle with respect to licensing costs. The Department also supports the simplicity of one standard charge for all applicants such as that most recently proposed by the Government to recover licence costs i.e. an across the board application fee of \$200.

The Department supports an across the board initial application fee should be adopted for each of the current DoW licensing forms to cover the processing.

However the Department recommends a charter of service standards is developed to define the level of service expectations for processing of DOW applications. This will provide assist in establishing clear and transparent process for applicants.

In addition to the initial application fee, the Department acknowledges that there is a case for the introduction of a sliding scale of fees to reflect the administrative hours needed to process licences for large and complex applications. (as shown by Table 3.1 of the Inquiry.)

However, the Department suggests before this approach is adopted, applications should be assessed according to the criteria set out below. This involves balancing the cost borne by the applicant to meet the requirements of the application process, (as per the requirements of Statewide Policy No 19), the number of administrative hours required to process the application, the benefit of the hydrogeological information gained by the DOW following the investigation of the water resources, and the potential success/failure of applications. The cost recovery approach should take into consideration the benefit to all future users by the increase in DoW knowledge. The Department supports the development of a system of credits to offset some of the applicant's cost as discussed in section 2.2 to correctly reflect costs and benefits of large or complex applications.

Costs to Dow	Benefits to Dow	Costs to applicant	Benefits to Applicant
The initial application fee; Additional administrative hours required to assess complex applications.	Hydrogeological exploration and knowledge gained of the water resource paid for by applicant.	Hydrogeological exploration and knowledge gained of the water resource; Cost of licence application including extra administrative hours needed; Potential failure of licence application.	Potential success of licence application.

The Department assumes any cost recovery for the renewal or compliance of a license would be a component of an annual fee.

2.2. Cost recovery for water resource management and planning

Costs associated with broader activities in water resource management require a different assessment. The Department supports the impactor pays approach (c.f. the beneficiary pays approach, as outlined in ACIL Tasman (2003)¹ as being more predictable and less prone to inducing incentives which distort the costs.

¹ ACIL Tasman (2003). A Financial Charging Model for Water Resource Management.

The Department recommends that a framework be developed based on the impactor pays model to identify how charges are apportioned across users. As previously discussed we recommend that the framework could consider differentiating between different users. However, at this time applying cost allocation on a regional basis is not supported by Department. This method is likely to be problematic because of the complexity involved in determining the cost allocation process by resource.

The Department also recommends that the framework consider the use of credits where resource information has been developed and paid for by the licensee. For example, where detailed hydrogeological work is undertaken to 'prove' water abstraction which also contributes to the broader understanding of the resource.

This is an example of where cost is incurred for investigation into environmental values where Dow receive a benefit and are able to use this information to determine environmental allocations. These costs should be allocated to the environmental sector and funded by government. Therefore a system of credits could assist to facilitate an equitable allocation of cost recovery between the applicant and the government.

2.3. Determining the Charging Units

The Department supports the application of cost recovery for the activities as a volumetric charge in order to apportion cost recovery equitably amongst users.

The Department supports a sliding scale of charges to be applied to achieve cost recovery principles, in preference to a per megalitres (ML) charge if that charge is to be determined by long run marginal cost (LRMC). (As adopted by the Economic Regulation Authority (ERA) in calculating Water Corporation Tariffs.)

A sliding scale supports the impactor pays principle. The adoption of a calculation of LRMC would not be an appropriate mechanism to reflect the cost of an individual impactor's activities. Smaller users who contribute the least impact could potentially pay a disproportionately larger share of the cost, and the highest impactor could pay proportionately less.

Furthermore, the Department questions whether encompassing future capital expenditures within LRMC is appropriate to the theme of full cost recovery on an impactor pays basis. Agricultural water users bear their individual capital costs of extraction and may derive minimal benefit from all other capital expenditures.

The ACIL Tasman Report describes capital costs as including land, measurement sites, buildings, plant and machinery, including computers. It is acknowledged that some water resource management costs accrue benefits equally amongst all users and these costs should be apportioned equally regardless of the size of the user. However, the Department considers a review is needed to analyse and categorise these capital costs to determine pertinence to agricultural water users.

The Department considers a sliding scale of charges to be the most equitable model to correctly apportion charges to reflect the actual user's contribution to costs due to user impact, and an equitable share of the cost of water resource management costs which benefit all users equally, subject to the analysis of which capital costs should be included in this part of the water resource management charge.

2.4. Cost recovery issues for surface water users:

The Department supports the implementation of metering so that dam users pay only for the cost recovery associated with their actual use, instead of the potential capacity of the licensed water resource.

This approach is preferred by the Department as the resolution of this issue for surface water users demonstrates a simple, equitable approach to gaining farmer's acceptance of cost recovery. This may further help to facilitate acceptance of resource management fees supporting security of supply, monitoring and planning activities.

3. What form of regulatory arrangements would be appropriate?

The Department supports the proposal that an independent entity, such as the ERA, provide a regulatory function in WA. This allows for a separation of responsibility between the DoW as the resource manager, and the ERA as the regulator of service delivery standards and efficiency in operational activities.

With the introduction of the cost recovery fees there will be increased expectation by water users on the level of service provided by the DoW. This translates into an expectation that the charges will deliver water resource management and planning to ensure a long term reliable and secure supply. As previously mentioned, the Department recommends a charter of service standards and efficiency in operations is developed and monitored by an independent organisation.

Is worth noting that the current draft Water Services Bill and draft Water Resource Management Bill may require amendment to reflect the proposed regulatory role of the independent entity responsible for service delivery standards and efficiency in operational activities.

4. Implementation

4.1. Capacity to pay:

The issue of capacity to pay is complex due to the varying water users and uses.

The Department acknowledges the level of the license fees suggested by Table 5.1 of the Inquiry is modest and therefore unlikely to cause hardship to water users. However, it is noted that the smallest users (0 - 5,000 KL) pay a proportionately higher level of cost per kilolitre. Approximately 47% of licences are currently within this range. The next range of licence holders are between 5,001 - 100,000 KL which encompasses a wide range of water users, with different levels of production and different ability to pay.

The Department recommends that the level of cost recovery across users should also be applied in line with the equity principle i.e. distributing costs more evenly between users. This would require the sliding scale of fees to commence at a higher level than the current level of 1,500 KL, or for more increments between 5,001 -100,000 KL.

The Department further recommends that when a framework for cost recovery has been developed a sensitivity analysis on the capacity to pay for irrigated agricultural businesses should be undertaken. This would assist in identifying any secondary unintended consequences.