

**Submission to
Economic Regulation Authority**

***Inquiry into Water Resource Management and
Planning Charges: Issues Paper***

8 June 2009

1. Background: Rio Tinto Iron Ore and water

Rio Tinto is the world's second largest iron ore producer and contributes approximately a quarter of the world's seaborne iron ore trade. Rio Tinto's most significant iron ore resource base is located in the Pilbara in Western Australia, with further operations in Canada and Brazil and development projects in Guinea (west Africa) and India. Rio Tinto's iron ore corporate headquarters are located in Perth, Western Australia.

Rio Tinto's Pilbara iron ore operations consist of a network of 11 mines, three shipping terminals and the largest privately owned heavy freight railway in Australia and have grown to an annual capacity of 220 million tonnes of iron ore.

Rio Tinto's iron ore business is a significant contributor to the economic health of Australia and Western Australia, as one of the largest employers in Western Australia and contributing more than US\$13.7 billion in export revenue.

In Western Australia, Rio Tinto is both a water user and water supplier. Rio Tinto's iron ore operations in the Pilbara source approximately 90% of water needs through self-supply. Rio Tinto (through Hamersley Iron Pty Ltd) is also a licensed Water Service provider, providing potable water and wastewater services to the towns of Dampier, Tom Price and Paraburdoo.

Rio Tinto recognises the need to carefully balance economic, social and environmental considerations to ensure our ongoing success. Our aim is to deliver more value from our business with less impact on the environment and the community. This commitment to sustainable development is formalised within a corporate governance framework that is underpinned by Rio Tinto's statement of business practice, *The Way We Work*.

Future access to ore bodies will require a focus on regional sustainability and the responsible management of water now and into the future. Rio Tinto's approach to managing its water resources is guided and informed by the *Rio Tinto Iron Ore (WA) Water Strategy*.

A key element of Rio Tinto's Water Strategy is to engage in the broader policy debate and the water reform process. Rio Tinto welcomes the opportunity to provide comments on the *Inquiry into Water Resource Management and Planning Charges: Issues Paper* and submits the following comments to the Economic Regulation Authority for consideration and action.

2. Rio Tinto's role in developing its own water resources, access to s5C water licences under the *Rights in Water and Irrigation Act 1914* and State Agreement rights

As noted, Rio Tinto is both a water user and water supplier, as well as a licensed water service provider (through Hamersley Iron Pty Ltd) under the *Water Services Licensing Act 1995*.

Hamersley Iron is classified by the ERA as a small potable water provider.¹ Potable water for Paraburdoo and Tom Price is sourced from groundwater bores, while the potable water supply for Dampier is sourced from the West Pilbara Water Supply Scheme, which is operated by the Water Corporation.

In the case of water supply to Rio Tinto's port operations at Dampier and Cape Lambert, the water is also sourced from the West Pilbara Water Supply Scheme.

¹ Economic Regulation Authority *Water, Wastewater and Irrigation Performance Report 2007* p27

Rio Tinto's mining operations in the Pilbara draw their water needs from ground water resources for self-supply to mining operations and mining camps and villages at operations such as Brockman, Yandicoogina, West Angelas and Hope Downs in accordance with s5C water licences under the *Rights in Water and Irrigation Act 1914*. At some operations, s5C abstraction licences are also obtained for dewatering purposes to enable below water table mining.

Rio Tinto holds and complies with s5C water licences for all its water abstraction activities in the Pilbara.

Like many other mining companies, Rio Tinto already contributes significantly to the identification, development and management of the water resources it uses, for example in exploration and resource definition, improved resource modelling, metering and monitoring. This is in addition to the substantial investment it makes in infrastructure to obtain the water. This was clearly acknowledged by both the Water Reform Implementation Committee in the *Blueprint on Water Reform in Western Australia*² and in *Western Australia's Implementation Plan for the National Water Initiative*³, and is also highlighted in the ERA's Issues Paper⁴.

It is noted that Table 5.2 of the Issues Paper may lead some stakeholders to suggest a charging regime based on a volume per licence basis. However, such a simplistic approach would not properly recognise the already significant contribution made by Rio Tinto and other mining companies towards the development and ongoing management of the water resources they manage.

Where Rio Tinto already funds and undertakes many of these services with regard to the water resources it uses, it is unreasonable that it should bear the costs of the same services undertaken by the Government elsewhere in the State. It is reasonable to expect that Rio Tinto should only bear its share of those costs associated with the services undertaken by the Government in relation to the better management of the water resources it does use. It is therefore important that in any consideration of the introduction of water resource management and planning charges, that the structure of the charges is reflective of the specific water resource management needs and costs faced by the mining industry in the Pilbara, and the charges adjusted downwards accordingly.

Rio Tinto highlights the significant investment it makes in the identification, development and management of the water resources it uses would otherwise be undertaken by the Department of Water and funded by the taxpayer through the Consolidated Fund. Rio Tinto should only bear its share of those costs associated with the services undertaken by the Government in relation to the better management of the water resources it uses, and any charges adjusted downwards to reflect the investments it makes in the identification, development and management of the water resources it uses.

² Water Reform Implementation Committee "*Blueprint on Water Reform in Western Australia*" 2006: p43

³ Government of Western Australia "*Western Australia's Implementation Plan for the National Water Initiative*" 2007: p55

⁴ Economic Regulation Authority "*Inquiry into Water Resource Management and Planning Charges: Issues Paper*" 2009: p10

It is noted that under some of its State Agreements, Rio Tinto has had an exemption from the payment of fees in connection with developing and drawing from a water source, specifically:

- The *Iron Ore (Channar Joint Venture) Agreement Act 1987* - clause 17(5);
- The *Iron Ore (Hope Downs) Agreement Act 1992* - clause 21(4); and
- The *Iron Ore (Yandicoogina) Agreement Act 1996* - clause 18(4).

Rio Tinto urges the Government to ensure that its State Agreement rights are preserved under any new water resources management and planning charging arrangements under the current legislative regime, as well as under any future water resources management legislation.

3. Principles for considering the application of water resources management and planning fees

3.1 *Necessary and limiting conditions for application of water resources management and planning fees*

It is noted that the Terms of Reference for the Inquiry refers to “...*undertaking sensitivity analysis on capacity to pay assumptions*”⁵ with regard to implementation impacts. Rio Tinto stresses that this does not imply that the charging system should be based on capacity to pay as a first principle, and that the intention of this Term of Reference is clearly to ensure these issues are considered with regard to *implementation*.

For water resources management and planning fees to be justifiably attributed to licence holders the programs which they intend to fund would need to satisfy a set of necessary conditions. Once these conditions have been satisfied, the extent to which the costs of service provision can be fully recovered from licence holders needs to be qualified by some additional “limiting” conditions. These are explained below.

Necessary conditions

For water resources management and planning fees to be clearly and reasonably attributed to licence holders and hypothecated back to the cost of the provision of services by the Department of Water, the respective programs of the Department would need to satisfy the following **necessary** conditions:

1. The program is related to water resource management;
2. The program exhibits minimal Public Good characteristics and is therefore more readily attributable back to licensees; and
3. The practical implementation of a charging regime.

⁵ Economic Regulation Authority “*Inquiry into Water Resource Management and Planning Charges: Issues Paper*” 2009: p40

- Application to water resource management functions

Some services offered by the Department of Water are not directly related to water resource management. This should automatically exclude their consideration for funding via water resources management and planning fees.

- Public Good characteristics

A public good is a good that is non-rival and non-excludable. This means, respectively, that consumption of the good by one individual does not reduce availability of the good for consumption by others; and that no one can be effectively excluded from using the good. Whilst not exclusively the domain of government service provision, the provision of goods and services that exhibit some or all the characteristics of a public good are often provided by governments. Defense and street lighting are often used as examples of public goods.

In the real world, there may be no such thing as perfectly public good, but the concept provides a useful guide to assessing the application of targeted fees and charges, such as those contemplated by the ERA for water management and planning charges, which would be specifically hypothecated to the cost of providing “water management and planning services”.

The extent of the non-rival and non-excludable characteristics of a good or service suggest the extent to which the ability to isolate and attribute charges to those that benefit from activities is limited. For example, it could be argued that floodplain management and planning exhibits quite strong non-rival and non-excludable characteristics. To try to isolate and charge “users” in this instance would be problematic and costly to administer, and there is therefore a strong argument to continue to fund these services via the Consolidated Fund.

Where non-excludable and/or non-rival characteristics exist, it will limit the ability to isolate and attribute charges to those that benefit from these programs. This suggests the exclusion of these programs from funding via water resources management and planning fees.

- Practical implementation of a charging regime

Another factor that should be taken into account when considering the application of water management and planning charges is whether the calculation and administration of the charging regime is an efficient use of resources – the imposition of a charging regime may simply be too difficult to impose in practice. In an attempt to be equitable and targeted, the administrative cost of administering a charging regime may prove an inefficient use of scarce departmental resources, which could be better applied to the provision of services themselves.

Where the imposition of a charging regime may prove too difficult or disproportionately costly to administer in practice, or where departmental resources would be more effectively and efficiently deployed on providing services to stakeholders, these programs should be excluded from funding via water resources management and planning fees.

Limiting conditions

If a program satisfied the necessary conditions (above), it would then need to consider the following **limiting** conditions, which would limit the extent or shape the way in which the full cost of the provision of these programs should be passed on to licensees:

4. Extent of benefits (of program) beyond licensees
5. Extent to which a Regional/Functional split may be applicable

- Extent of benefits beyond licensees

The application of water management and planning charges to licensees needs to consider the extent to which benefits accrue, directly or vicariously, to other stakeholders including the community as a whole, from the better management of water resources. Where there are considered to be significant benefits beyond the licensee, then the case for full cost recovery for the services in question from water management and planning charges is weakened and consideration should be given to seeking only partial cost recovery from licensees.

- Extent to which a Regional/Functional split may be applicable

Where the imposition of a charging regime could be applied on a regional (eg Pilbara, Perth, South West etc) or functional (eg mining, agriculture etc) basis, there may be scope for more directly linking the actual costs to those licensees that incur them. Where it may be considered appropriate to levy water resources management and planning fees, scope for more accurate application of the user pays principle could be applied via hypothecating costs to be funded via water resources management and planning fees back to a regional or functional distribution of these costs

Classification of Department of Water programs

The ERA invites stakeholders to consider all the functions undertaken by the Department of Water (detailed in Table 2.1 and Appendix B) and to identify those functions considered to be appropriate to be funded via water management and planning charges that would be levied on license holders. Rio Tinto's response considers all the above conditions and is provided at Attachment A to this submission.

This analysis indicates that the following are the only programs *likely* to warrant closer consideration for funding from water resources management and planning fees:

- Water Licensing;
- Water Licensing and Support; and
- Water Allocation Planning

These programs are highlighted in orange in Attachment A.

This analysis also indicates that the above programs are effected by one or more "limiting" conditions that would suggest that the extent or shape of the way in which the full cost of the provision of these programs should be passed on to licensees would need to be limited or qualified.

In summary, Rio Tinto considers that water resources management and planning fees should be based on the administrative costs directly associated with the current licensing regime under the *Rights in Water and Irrigation Act* and apportioned in a way that attributes some of the costs to broader beneficiaries of the system via partial funding of these functions from the Consolidated Fund.

3.2 *The need for a clear distinction between the current legislative regime and the proposed Water Resources Management Bill*

The Issues Paper does not appear to make the distinction between the current legislative regime, which it describes in detail, and the proposed *Water Resources Management Bill*, which encapsulates the proposed water management and planning regime described under the National Water Initiative (NWI).

It is not evident that the Issues Paper has considered the significant changes to the functions of the Department of Water - the new administrative responsibilities associated with the introduction of perpetual Water Access Entitlements, entitlement registers, water trading and statutory management planning obligations, which would characterise the proposed water management regime. These functions will entail significant costs and it was clearly envisaged under the NWI that provision be made to put in place a water resources management charging regime that fully accounted for the direct costs of administering these new administrative responsibilities.

The Issues Paper refers generically to “water resource management and planning charges”, but does not clarify the extent to which this aligns or deviates from charges of the same name referred to under the NWI.

The Department of Water has been drafting the *Water Resources Management Bill* with Parliamentary Counsel for some time now and it is understood that the draft legislation is well progressed. It is anticipated that the new legislation will enable the water resources management charging regime, as proposed under the NWI. The Department has indicated its intention to release the draft legislation as a Green Bill for comment in Spring 2009.

With the imminent introduction of significant changes to water management under new legislation, the ERA needs to be very clear about the extent to which it intends to consider water resources management charges, as proposed by the NWI, within the scope of this inquiry.

Rio Tinto recommends the ERA make a clear distinction between its definition of “water resource management and planning charges” and charges of the same name referred to under the NWI, which are proposed for introduction with the *Water Resources Management Bill*.

3.3 *The need for continuation of Rights in Water and Irrigation Act licensing arrangements alongside NWI-based water access entitlements*

Rio Tinto has on many occasions expressed its support for the State Government’s endeavours to develop better ways to manage our water

resources and for the broad directions it has outlined in this regard through the *State Water Plan*, and the *Government's Response to the Blueprint for Water Reform in Western Australia*.

The key to the successful application of water reforms through legislative change in the Western Australian context is to ensure a suite of legislative instruments relating to water access and trading arrangements that will enable water resource management outcomes that are "fit for purpose" and that reflect both the unique hydrogeological characteristics and the market circumstances of specific areas and regions. This need is clearly recognised in paragraph 34 of the NWI and has direct application to most inland mining operations in the Pilbara region.

Paragraph 34 provides scope to deal with market inefficiencies. There are a number of factors that contribute to limitations on the operation of markets in the inland Pilbara, which may limit the market-driven reforms that constitute the primary thrust of reforms under the NWI, and which are likely to see the continuation of s5C water licences under the *Rights in Water and Irrigation Act*. These factors include:

- There is a low likelihood of water resources approaching full allocation within the region, with limited competition for supply;
- The isolation of many mining activities means that the costs of transporting excess water long distances to demand centres is expensive and may not be commercially viable; and
- As many operations move to below water table mining, dewatering activities will generate excess water that is location and time specific, and which is not matched by demand external to Rio Tinto's mining operations.

Rio Tinto emphasises the importance of the continuation of water licences similar to s5C licences under the *Rights in Water and Irrigation Act*, that enable licences to be issued for a fixed volume for a fixed term. In the above circumstances, the importance of paragraph 34 to enable legislative systems to enable solutions to water management problems that are "fit for purpose" is critical.

The focus of any legislative change in the Western Australian context needs to recognise the diversity of hydrogeological and market circumstances across the state and that the market-based solutions envisaged under the NWI may have limited application to such a wide range of circumstances. The legislative framework envisaged in the *Government's Response to the Blueprint for Water Reform in Western Australia* would see a system of fixed volume/fixed term licences co-exist alongside NWI-style Water Access Entitlements.

Rio Tinto is supportive of this approach. Rio Tinto considers that this will facilitate optimal water resource management outcomes by enabling arrangements that are fit for purpose and that reflect both the unique hydrogeological characteristics and the market circumstances of the area in question.

Rio Tinto notes that the implications of the future legislative framework for any charging regime would be a clear need to distinguish between the costs associated with the continuation of a system of fixed volume/fixed term licences from the costs associated with the NWI reforms – with the respective charging regimes reflecting their respective administrative costs.

4. Key Issues regarding specific proposals for new water charges

4.1 Water licence administration fees

In 2007, the State Government attempted to introduce a water licence administration fee, consisting of a fee for all licences and permits under the *Rights in Water and Irrigation Act*, and an annual administration fee for all s5C licences, based on Recommendation 42 of the *Blueprint for Water Reform in Western Australia*⁶.

Rio Tinto recognises the role of Government in regulating, planning and managing water resources in the interests of the community, the environment and the economy. The administration of licences to take water under the *Rights in Water and Irrigation Act* is an important element of this role. It accepts that, in principle, a fee associated with the administration of such a licensing regime seems reasonable.

However, whilst there are direct benefits to licensees from the appropriate administration and management of the current water licensing regime, there are also significant benefits that accrue, directly or vicariously, to other stakeholders including the community as a whole, from the better management of water resources. Hence, Rio Tinto noted in a written submission to a Western Australian Legislative Assembly Inquiry on this issue, that:

*“It is reasonable to expect that the costs of funding this role should be borne equitably by the beneficiaries, including the wider community. However, the proposed fee structure for the water licence administration fees specifically targets licensees and does not seek to make the connection between the broader community benefit and the distribution of costs.”*⁷

As previously noted, Rio Tinto considers that it should only bear its share of those costs associated with the services undertaken by the Government in relation to the better management of the water resources it uses. As Rio Tinto often undertakes significant investment in its own water resource exploration, investigations and sustainable management practises, it seems reasonable that this be recognised in the structure and application of any annual administration fee for the current licensing regime under the *Rights in Water and Irrigation Act*.

Rio Tinto does not oppose in principle the introduction of an annual administration fee for all s5C licences, based on Recommendation 42 of the *Blueprint for Water Reform in Western Australia*. However, Rio Tinto strongly urges that the structure of water licence administration fees reflect: the specific water resource management costs faced by the mining industry in the Pilbara; the significant investments undertaken by the mining industry in its own water resource exploration, investigations and development; and proportionate approach to cost recovery that recognises the flow of benefits to the wider community.

⁶ Government of Western Australia “*Government’s Response to the Blueprint for Water Reform in Western Australia*” (2007): p20

⁷ Rio Tinto “*Submission to the Economics and Industry Standing Committee of the Western Australian Legislative Assembly Inquiry into Water Licensing and Services*” (2007): p4

4.2 Water resource management charges

RTIO notes that Recommendation 44 of the *Blueprint* regarding water licence administration fees (and consistent with commitments under the NWI) commits the Government to the introduction of further charges for water resources planning and management, but only “...once a nationally consistent approach is adopted and substantial progress is made on water reform in Western Australia, i.e. the completion of statutory water management plans and the establishment of longer term secure water access entitlements.”⁸

RTIO would like to highlight the Government’s commitment with regard to consideration of water resource management charges:

“...any introduction of further cost recovery will take place only after extensive consultation and the completion of statutory water management plans and the establishment of longer-term secure water access entitlements.”⁹

This commitment makes an unequivocal linkage between the introduction of water resource management charges and both the completion of statutory water management plans and the establishment of perpetual water access entitlements. The implications for the application of water resource management charges of this express linkage are as follows:

- the establishment of statutory water management plans and perpetual water access entitlements should become the trigger for the application of water resource management charges; and
- the quantum of water resource management charges should be hypothecated back to the direct costs associated with statutory water management planning and the establishment and ongoing administration of a water trading regime based on the issue of perpetual water access entitlements.

Rio Tinto endorses the Government’s clear commitment to directly linking the introduction of water resource management charges to both the completion of statutory water management plans and the establishment of perpetual water access entitlements. It follows that these factors become the necessary trigger to the application of water resource management charges and limit the quantum of these charges to the direct costs associated with their establishment and ongoing administration.

It is noted that the *Blueprint* did **not** recommend volumetric charging with regard to either water licence administration fees or water resource management charges. The government has yet to articulate a clear position on volumetric charging, but Rio Tinto is not supportive of this approach.

Volumetric charging for mining operations would weaken the viability of some resource development, with no apparent benefit in water resource management terms, for the following reasons:

⁸ Water Reform Implementation Committee “*Blueprint on Water Reform in Western Australia*” 2006: p47

⁹ Government of Western Australia “*Western Australia’s Implementation Plan for the National Water Initiative*” 2007: p56

- Whilst one of the biggest users of water in the state, the use of water in the mining industry is also one of the highest value uses of that water. Flow of water to its highest value uses is one of the key objectives of the water reform agenda under the NWI;
- The resources industry often undertakes its own water resource exploration, investigations and sustainable management practises;
- In many regions mining operations access and use either non-potable or hypersaline water for which there are no other viable alternative uses;
- In the case of RTIO's Pilbara operations, despite having access to good quality potable water, the water resources are so remote that there is often no viable alternative uses and therefore a substantial charging regime linked to volume would exacerbate this market failure;
- The amount of water abstracted for dewatering purposes for below water table mining operations can be high. However this is an integral part of the mining process, and excess water not used preferentially for production purposes is assessed in terms of putting the water to beneficial use in accordance with NWI principles and the Department of Water's own "Hierarchy of uses"; and
- In the case of dewatering for below water table mining operations, licence volumes are expressed in terms of the amount of water initially abstracted, and do not account for water surplus to production requirements that is returned to the environment, either by Aquifer Storage and Recovery (ASR) or discharge to the surface. Failure to appropriately account for net flows would make any volumetric charging proposition even more problematic.

RTIO considers that water resources management and planning charges based on volumetric charging would seriously weaken the viability of some mining operations, with no apparent benefit in water resource management terms.

4.3 Limiting unchecked increases in fees and charges

There is a danger in directly linking fees and charges to the cost of the provision of certain services that are provided by a single supplier (in this case Government). If effective limits are not placed on the costs of the provision and the proper scrutiny and accountabilities established to ensure the efficient delivery of these services, the cost burden can grow unchecked.

Experience with similar fees, such as licences issued under Part V of the *Environmental Protection Act 1986* has seen substantial increases in recent years, with the premises component of the licence fee increasing by 54% since 2000 and the discharge component of the licence fee increasing by 150% over the same period. Concerns over future increases to the water licence administration fee if it was not capped were identified as a significant issue of concern for many stakeholders during the consultation phase of the *Blueprint on Water Reform in Western Australia*.¹⁰

¹⁰ Water Reform Implementation Committee "Blueprint on Water Reform in Western Australia" 2006: p44

Rio Tinto emphasises the need to ensure that water licence administration fees or any similar charges are appropriately capped or independently reviewed to prevent uncontrolled increases in the cost burden to those affected by the charges.

In introducing any system of fees that is to be hypothecated to the water resource management services provided, it is essential that the both the fee setting and the expenditure on service delivery is transparent and accountable and that the appropriate arrangements for scrutiny and review are put in place. For example, it would be inappropriate to give the Department of Water the power to set fees that would determine the level of resources available to the same organisation without some independent scrutiny or regular review. The NSW model for the institutional separation of service delivery from fee setting and review, as outlined in the Issues Paper¹¹ would appear to address this concern.

For this reason, Rio Tinto endorses Recommendation 43 of the *Blueprint* which proposes that the ERA independently review the structure and amount of the water licence administration fee on a regular basis. This review process will need to ensure that efficient delivery of services covered by the fees is also closely scrutinised.

A similar approach would also be supported with regard to any future water resources management charges.

RTIO considers that there needs to be appropriate accountabilities and controls placed upon the Department of Water to ensure the services that are to be covered by any fees or charges for water resource management and planning are both delivered efficiently and delivered to a level that is appropriate to the water resource management needs of the catchment in question.

4.4 *Ensuring appropriate resourcing of water management services not directly funded by fees and charges*

Section 3 (above) identifies services that Rio Tinto believes should not be directly funded by fees and charges levied on users. As noted, these services demonstrate characteristics that impart either a significant benefit beyond those that hold a licence, deliver a benefit that is not easily excludable or may simply be too difficult to impose in practise.

It is critical that, if charges are introduced for water resources management and planning that are intended to cover a substantial part or all of the costs associated with the delivery of these services, that the resourcing of other services provided by the Department of Water are not diminished as a result. Pressure on the Government in the current economic climate to continue to cut costs on top of the recent efficiency dividend, runs a risk of limiting the capacity of Government to provide the necessary services in a timely manner to facilitate projects as global demand recovers.

The Government will need to ensure its agencies have the necessary resources and funding to enable adequate planning and policy capacity, to ensure the

¹¹ Economic Regulation Authority "Inquiry into Water Resource Management and Planning Charges: Issues Paper" 2009: p37

Government's water reform agenda is effectively implemented, and to ensure the provision of appropriate levels of service delivery to industry as the global economic crisis recedes.

Rio Tinto encourages the ERA to also consider the need to ensure appropriate resourcing of services to the water industry that are not hypothecated to any fees or charges for water resource management and planning.

For further information on this submission, please contact Mike Harold, Principal Advisor - Water Policy on 08 9366 5641 or mike.harold@riotinto.com.

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Analysis of Department of Water programs against principles for application of water resources management and planning fees.

The following analysis attempts to characterise the program information provided in Appendix B of the ERA's Issues Paper, in order to determine which programs could be hypothecated to water resources management and planning fees and to what extent.

The following is a guide to the notations in the table and relates to the more detailed discussion in section 3.1 of the submission.

Necessary and limiting conditions

For water resources management and planning fees to be clearly and reasonably attributed to licence holders and hypothecated back to the cost of the provision of services by the Department of Water, the respective programs of the Department would need to satisfy the following **necessary** conditions:

1. Related to water resource management
2. Minimal Public Good characteristics
3. Practical implementation

If a program satisfied these necessary conditions, it would then need to consider the following **limiting** conditions, which would limit the extent to which the full cost of the provision of these programs should be passed on to licensees:

4. Extent of benefits (of program) beyond licensees
5. Extent to which a Regional/Functional split may be applicable

Rio Tinto's analysis of the application of all the above conditions to the program information provided in the Issues Paper is summarised in the table below. This analysis indicates that the following are the only programs *likely* to warrant closer consideration for funding from water resources management and planning fees:

- Water Licensing;
- Water Licensing and Support; and
- Water Allocation Planning

These programs are highlighted in orange in the table.

This analysis also indicates that the above programs are effected by one or more "limiting" conditions that would suggest that the extent or shape of the way in which the full cost of the provision of these programs should be passed on to licensees would need to be limited or qualified.

Guide to notations (Key)

- **Related to water resource management** - ✓ = yes; × = no
Some services offered by the Department of Water are not directly related to water resource management. This should automatically exclude their consideration for funding via water resources management and planning fees.
- **Public Good characteristics** - ✓ = yes (these characteristics exist); × = no (these characteristics don't exist)
Where non-excludable and/or non-rival characteristics exist, it will limit the ability to isolate and attribute charges to those that benefit from these programs. This suggests the exclusion of these programs from funding via water resources management and planning fees.

- Practical implementation** - ✓ = practical; ✗ = not practical
Where the imposition of a charging regime may prove too difficult or disproportionately costly to administer in practise, or where departmental resources would be more effectively and efficiently deployed on providing services to stakeholders, these programs should be excluded from funding via water resources management and planning fees.
- Benefits (of program) beyond licensees** - ✓ = yes; ✗ = no
Where benefits of the program accrue, directly or vicariously, to other stakeholders including the community as a whole (ie beyond the licensee), then the case for full cost recovery for the program in question from water management and planning charges is weakened. This suggests consideration needs to be given to seeking only partial cost recovery from licensees from funding via water resources management and planning fees.
- Regional/Functional split applicable?** - ✓ = yes; ✗ = no
Where the imposition of a charging regime could be applied regional (eg Pilbara, Perth, South West etc) or functional (eg mining, agriculture etc) basis, there may be scope for more directly linking the actual costs to those licensees that incur them. Where it may be considered appropriate to levy water resources management and planning fees, scope for more accurate application of the user pays principle could be applied via hypothecating costs to be funded via water resources management and planning fees back to a regional or functional distribution of these costs.

Program	Sections	Necessary conditions			Limiting conditions	
		Related to water resource management	Public Good characteristics	Practical implementation	Benefits beyond licensee	Regional/ Functional split applicable
Water Services	Water Services Policy	✗	n.a.	n.a.	n.a.	n.a.
	Indigenous and Remote Community Water Services	✗	n.a.	n.a.	n.a.	n.a.
	Strategic Water Industry Services	✗	n.a.	n.a.	n.a.	n.a.
Urban Water Management	Urban Drainage Planning	✓	✓	✗	✓	✓ (regional specific)
	Urban Water Assessment	✓	✓	✗	✓	✓ (regional specific)
	Water and Land Use Coordination	✓	✓	✗	✓	✗
Surface Water Assessment	Floodplain Management	✓	✓	✗	n.a.	✓ (poss. regional)
Water Source Protection	N/A	✓	✓	✗	✓	✗
Salinity Recovery	Salinity recovery and catchment research	✗	✓	✗	✓	✓ (regional specific)
Water Recycling and Efficiency	Water Recycling and Efficiency	✓	✓	✗	✓	✓ (poss. functional)
Water Allocation Planning	Environmental Water Planning	✓	✓	✓	✓	✓
	Water Allocation Planning	✓	✗	✓	✓ (some)	✓
Water Services	Rural Water Planning	✗	n.a.	n.a.	n.a.	n.a.

Water Licensing	Water Licensing Policy	✓	✓	✗	✓	✗
	Water licensing	✓	✗	✓	✓	✓ (poss. functional)
	Water Reform Implementation	✓	✓	✗	✓	✗
	Water Licensing and Support	✓	✗	✓	✓	✓
	IWSS Licensing and Special Projects	✓	✓ (for special projects)	✓	✓	✓ (regional specific)
Water Recycling and Efficiency	Metering	✓	✓	✓	✓	✓ (poss. functional)
Wheatbelt Salinity	Salinity Engineering	✗	✓	✗	✓	✓ (regional specific)
Waterways	Waterways	✓	✓	✗	✓	✓ (regional specific)
Groundwater Resource Assessment	Groundwater Assessment	✓	✓	✗	✓	✗
	Groundwater Investigation	✓	✓	✗	✓	✗
	Groundwater Review	✓	✓	✗	✓	✗
Surface Water Assessment	Surface Water Assessment	✓	✓	✗	✓	✗
Water Science	Water Quality and Land Use	✓	✓	✗	✓	✗
	Aquatic Ecology and Chemistry	✓	✓	✗	✓	✗
	Aquatic Risk	✓	✓	✗	✓	✗
Water Measurement and Information	Spatial Analysis (GIS)	✓	✓	✗	✓	✗
	Water Information Management	✓	✓	✗	✓	✗
	Water Information Collection	✓	✓	✗	✓	✓
	Water Information Provision	✓	✓	✗	✓	✗
Strategic Policy and Planning	Water Reform Coordination	✓	✓	✗	✓	✗
	Strategic Water Management	✓	✓	✗	✓	✗
	Strategic Water Issues	✓	✓	✗	✓	✗
Legislation and Legal Services	Legal Services	✓	✓	✗	✓	✗
	Legislation	✓	✓	✗	✓	✗
Kimberley Region, Kwinana/ Peel Region, Mid-West Region, South Coast Region, South West Region, Swan-Avon Region, Pilbara Region	N/A	✗	n.a.	n.a.	n.a.	n.a.

Regional Coordination	Compliance and Enforcement	✓	✓	✓	✓	✓
	Indigenous Support	✗	✓	✗	✓	✓
	Land Management	✗	✓	✗	✓	✓
Land Management	N/A	✗	n.a.	n.a.	n.a.	n.a.
Finance and Administration	Finance and Administration and Assets	✗	n.a.	n.a.	n.a.	n.a.
	Financial Planning	✗	n.a.	n.a.	n.a.	n.a.
	Financial Services	✗	n.a.	n.a.	n.a.	n.a.
Human Resources	Human Resources Operations	✗	n.a.	n.a.	n.a.	n.a.
	Organisational Development	✗	n.a.	n.a.	n.a.	n.a.
	Workforce Planning and Development	✗	n.a.	n.a.	n.a.	n.a.
	Workforce Planning and Development	✗	n.a.	n.a.	n.a.	n.a.
Information Services	Information Systems	✗	n.a.	n.a.	n.a.	n.a.
	Information Management	✗	n.a.	n.a.	n.a.	n.a.
	Information Communication and Technology	✗	n.a.	n.a.	n.a.	n.a.
	Information – Business improvement	✗	n.a.	n.a.	n.a.	n.a.
Corporate Communications	N/A	✗	n.a.	n.a.	n.a.	n.a.
Government Relations	N/A	✗	n.a.	n.a.	n.a.	n.a.
Corporate Development	N/A	✗	n.a.	n.a.	n.a.	n.a.