



December 20, 2010

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

Dear Sir/Madam,

The Western Australian Farmers Federation (Inc) (WAFarmers) thanks you for the opportunity to make a submission to the Inquiry into Water Resource Management and Planning Charges' Second Draft Report (further referred to in this submission as 'the Second Draft Report').

As background, WAFarmers completed submissions to the earlier phases of the Inquiry into Water Resource Management and Planning Charges, being its Issues Paper (June 2009), Discussion Paper (August 2009), Draft Report (February 2010) as well as participating in the round table arranged by the Economic Regulation Authority (the ERA) on August 10, 2009 and on November 26, 2010.

In this submission, WAFarmers aims not to repeat the information that we presented in those earlier phases of the Inquiry however given (1) the time elapsed through the two extensions and (2) the commonality of some issues in the Second Draft Report to previous publications, this may occur. Nevertheless, WAFarmers has an expectation that the ERA will consider our previous comments in their overall assessment of responses to the Second Draft Report.

Consideration of capacity to pay

The initial Terms of Reference of the Inquiry identified the need to consider water users capacity to pay any proposed charges developed through this Inquiry, stating:

- *The options are to include the implementation impacts for various types of users, including a sensitivity analysis on capacity to pay assumptions.*

This was however contradicted by Recommendation 8 in the Draft Report, being:

Ability to Pay for Different Users

Ability to pay concerns should not influence the design of water resource management and planning charges. Subsidies are generally not supported for groups of water resource users who claim that they do not have the ability to pay, as licence holders tend to use water for commercial purposes. However, if there is a recognised affordability issue

pertaining to any groups who only use the water for household purposes, subsidies would be better provided by grants rather than through the design of the charging regime.

This recommendation appears to be at odds with the original Terms of Reference. It also is prejudicial to rural water users. Further confusion in this area is then added in the Second Draft Report, which states:

The Authority is inviting feedback from stakeholders on the capacity of different groups to pay the indicative fees and charges.

It seems laughable that the original Terms of Reference can require a sensitivity analysis on 'capacity to pay' assumptions, which the ERA then dismisses, only to create some form of token consultation process on the issue, some 11 months later. WAFarmers suspects the ERA's offer of 'inviting feedback' is far too late to be of practical, debatable value, and given the ERA's earlier findings, WAFarmers has concerns that any comment in this area that is provided will receive little serious consideration.

Despite these concerns WAFarmers suggests that the ERA:

- (1) Contact the Department of Agriculture and Food to ascertain its work in this area. WAFarmers is aware of an unpublished survey of the profitability of the State's pome and stone fruit growers conducted in 2003/04 which identified that only about one-third were profitable.
- (2) Refer to the enclosed media release from Senator Richard Colbeck (March 2010) which identifies that the average dairy farm business was forecast to make a loss of \$44 000 in 2009/10.
- (3) Refer to the enclosed media release from the peak national wine industry bodies (November 2009) which identifies that "on cost of production alone, at least 17% of vineyard capacity is uneconomic.

Clearly, these indicate agricultural industries which were suffering stresses and WAFarmers contends that, at this time, similar conditions remain. As such, WAFarmers believes they demonstrate an inability to absorb the additional costs of the scale proposed in the Second Draft Report.

"The majority of the Authority's draft recommendations received support by stakeholders and have not been revisited in the second Draft Report."

WAFarmers must be considered to be in the group which is outside this statement. WAFarmers submission on the Draft Report raised several concerns with these recommendations, including:

- The Department of Water's inability to provide the ERA with *'the information needed for the Authority to determine the efficiency or cost reflectivity of the costs to be allocated to license holders'*, despite having had some six months (April-December 2009) to do so. This failure has provided stakeholders with no confidence that the Department of Water is able to account for, and allocate costs to, management activity for water management and planning charges.
- Simply holding a water license should not attract inequitable costs, under the guise of these charges being a true reflection of the management costs of the resource.

- Issues with the Department of Water's capacity to efficiently manage the resource.
- That the ongoing implementation of the National Water Initiative requires a nationally consistent and agreed approach which involves legislative reform.

Despite some nine months since that document was submitted, WAFarmers has had no direct response from the ERA on these comments, and therefore we question how this can be considered an effective consultation process or a demonstration of how our concerns have been reasonably considered and responded to by the ERA.

Changes to Draft Recommendations

The very cornerstone of the ERA's thinking is that those who create the service should pay, and yet several listed changes to the recommendations in the Draft Report move away from this. It seems incredible to WAFarmers that the ERA is again proposing to charge a small group of water users, whilst others are exempted, notably Perth's domestic bore owners, on the basis of the opposition from the Department of Water and the Water Corporation.

As we have commented previously, the failure of the Department of Water to effectively manage a database of domestic bores in the Perth metropolitan area should not be an excuse for the uncontrolled use of over 100 Gigalitres (GL) of water each year. This is particularly so when many of these bores are located in what could arguably be Western Australia's most sensitive water catchment, the Gnangara Mound. WAFarmers notes that one of the seven 'Principles of Water Resource Management and Planning Charges refers to 'equity of application' to licensed water users. The ERA lacks an equitable and consistent approach in recommended charges between licensed and unlicensed water users and WAFarmers does not accept the ERA's position on this issue.

Comments on the proposed charges

On the proposed charges, WAFarmers comments:

- A new 'Licence Application Fee' should reflect the complexity of Department of Water assessment for the particular dam, bore and water resource. In this, the applicant should receive a quote prior to the work commencing for assessment, which should have an independent appeals process should there be a dispute over the quotation. The Department of Water's service provision must be similar to that which is considered on a par with commercial services provided in the private sector.
- The quoted 'Annual Charges' and 'License Renewal Fees' must reflect the cost recovery of administration of a licensing database. This could occur over a multi-year period however the proposed costs are far in excess of other comparable State-based charges and are not supported by WAFarmers. It appears that very little has been learnt from the failed attempt to introduce Water Licence Administration fees in 2006/07.
- WAFarmers does not support the proposed annual meter reading charge. WAFarmers notes that the Price Waterhouse Coopers (September 2010) report comments that rationalisation of the frequency of meter readings taken by the Department of Water in the Gnangara area have reduced from monthly readings to twice per year and champions this as an area of "tangible evidence that the Department of Water has made

efficiency gains in some areas of its business.” Farmers should not be expected to pay for this level of bureaucracy.

Comments from the ERA roundtable – November 2010

WAFarmers participated in several discussions at the roundtable centered on the inadequacy of the matrix used to proposed charges, both in the level of catchment allocation, and in the Department of Water’s identified ‘effort’. The general feeling from these was there needed to be additional categories introduced to the matrix.

As an example, WAFarmers highlights the current application by Karara Mining for 5.3 GL of water in the Mingineew area, which equates to 65% of the groundwater catchment it is drawing from. Under the proposed charges (Page 96), Karara Mining would pay (1) a one-of new licence application fee of \$3350, and annual fees of (2) a licence renewal fee \$992 and (3) an annual charge of \$1669. This compares rather favorably with a small horticultural business in the same situation that would pay the same charges for access to a far lesser amount of water. WAFarmers appreciates that these are not consumptive-based charges however the current assessment by the ERA is simply inequitable and far too broad.

Whilst opposing the quantum of charges, WAFarmers believes there is a need to review the matrix. This however presents another problem, being that should this occur, industry stakeholders (as opposed to the Department of Water) will not have an opportunity to have input into the ERA’s proposed matrix model prior to the finalisation of the Inquiry. It would appear a significant weakness in the process, should that occur, particularly given the two extensions that have occurred already to accommodate the Department of Water.

Finally, WAFarmers thanks you for consideration of this submission. Should you wish to discuss this matter please do not hesitate to contact me or WAFarmers Director of Policy, Alan Hill on 9486 2100.

Yours sincerely

Mike Norton
President