



Mr Lyndon Rowe
Inquiry into Water Management and Planning Charges
Economic Regulation Authority
P O Box 8469
Perth Business Centre
PERTH WA 6849
publicsubmissions@erawa.com.au

Your Ref:
Our Ref:
Enquiries:
Date: 23 December 2010

Dear Mr Rowe

INQUIRY INTO WATER MANAGEMENT AND PLANNING CHARGES

Thank you for the opportunity for the Department of Agriculture and Food (the department) to provide a submission to the inquiry into water resource management and planning charges: second draft report. The department supports the introduction of cost recovery which is economically efficient, clearly identified and commensurate with the level of service provided.

Any implementation of new fees needs to be moderated to allow the market to respond appropriately to the additional costs to be borne by water users. The introduction of charges may result in a need to increase costs to consumers across a range of water use activities at one time. With the current proposed phase in period this will occur every year for three years. There is no analysis on how these charges will be managed by consumers who will pay across a number of areas which includes domestic water supply, fresh food prices, energy costs and local shire rates. Further investigation of the cumulative costs of the charges need to be understood. The department recommends that an impact assessment is undertaken to provide confidence to the water industry before the costs are partially or fully implemented.

It is important to remember the Western Australian community benefit from access to local fresh quality produce, grown with a secure regulated system and by an industry which provides long term stability to regional development. The price consumers pay fails to reflect the true value or cost of this secure, diverse and healthy irrigated agriculture sector. Whilst there are benefits for the consumer, the growers must bear the costs to maintain this system. New charges, such as the proposed license renewal and water resource management and planning fees, add another layer of production costs and administration for growers to absorb. The recent variable weather, increases in service charges and strong Australian dollar has already placed growers under pressure, not only in their management of production and costs, but their ability to trade competitively. The agricultural industries would like to see some consideration of the importance of their contribution to a healthy secure food system, which cannot always be captured in economic terms.

Agricultural Resource Risk Management

3 Baron-Hay Court, South Perth, Western Australia 6151
Postal address: Locked Bag 4, Bentley Delivery Centre WA 6983
Telephone: (08) 9368 3743 Facsimile: (08) 9368 1205

Whilst the introduction of water resource management and planning charges is supported, the scale and equity of implementing these charges needs closer consideration. The department analysis (Attachment 2) identified that small users are paying significantly more in relative terms than larger users. There is also an equity issue between charges for growers operating in a co-operative structure where there has been significant government investment compared to the self supply industry where infrastructure and development investment has been individually borne. Also the move water resource to highest value use is potentially compromised by the scale of the fee charged for trading of water. This suggests further work is required by the DoW and the Authority to ensure that the charges are equitable and support an efficient system for growers to operate.

The department has provided a response representing the interests of irrigated agricultural industries. A preliminary analysis of the implications on the scale of our industries has been undertaken by the department to provide evidence to the Inquiry. However, irrigated agriculture in Western Australia is highly diverse and cannot be easily segmented into representative enterprises. The department has identified further work is required to make a useful contribution to the establishment of charges. This more detailed analysis to be undertaken has been outlined in Attachment 1 which also provides the department's responses to the recommendations.

Further analysis is proposed to be undertaken in early 2011 with the Economic Regulation Authority (the Authority) and Department of Water (DoW).

Should you have any queries regarding the Department's comments, please contact Ms Vicki McAllister on 9368 3437 or vicki.mcallister@agric.wa.gov.au.

Yours sincerely

John Ruprecht
EXECUTIVE DIRECTOR

Agricultural Resource Risk Management

3 Baron-Hay Court, South Perth, Western Australia 6151
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ATTACHMENT 1: Summary of Draft Recommendations

Recommendations	Department of Agriculture and Food response
Changes to Draft Recommendations in the First Draft Report	
1) For public open spaces, water resource management and planning costs be recovered from public funds.	Support
2) The Department of Water to not reimburse licence holders for the costs of information provided in licence applications.	<p>Whilst the information contained in an individual report will build on the overall understanding of a water resource, the department accepts that this value isn't tangible to be credited to an individual. However, the department would like to see that hydro-information presented to the DoW in reports is developed into general information on the aquifer and available for current users, future applicants and the general public. Investors of irrigated agriculture are frustrated at the lack of quality information on water resources available.</p>
3) The costs incurred by the Department of Water in managing garden bores not be recovered from bore owners.	<p>Whilst the department considers there is an inconsistency in approach with the failure to implement licensing for garden bores, the cost of administering 177,000 garden bores would, at this time, outweigh the returns or benefits and could jeopardise the service to agricultural water users. Any costs borne by the monitoring or management of this user group (~\$2,000,000) should therefore be considered a community benefit.</p> <p>The department interest for licensing this group was a concern for the future management of this resource as impacts from climate change, acid sulphate soils, contamination/pollution or competition with licensed users occur. Therefore, the department supports the ongoing collection of data by DoW on the level of effort in regard to this group.</p>
Accountability, Effectiveness and Efficiency in Water Resource Management and Planning Activities	
4) The Authority estimates that in 2008-09 the	The department accepts the Authority's assessment of the DoW's activities that the

<p>Department of Water incurred a total of \$29.2 million of costs that is considered to be efficiently incurred on behalf of identifiable private parties and provides an appropriate basis for service fees and charges.</p>	<p>basis for cost recovery by DoW cannot be justified by their accounting systems and contains too many arbitrary allocations of overhead costs to services.</p> <p>This identifies the importance of establishing an independent body to continue to undertake a review of the DoW's activities to ensure only efficiently incurred costs by identifiable private parties are recovered. The department recommends the Authority formalises this responsibility and any future approach with a water industry committee.</p> <p>The department has concerns about the effectiveness of the DoW work undertaken in the Warren Donnelly. The report undertaken by Resource Economics Unit failed to address these issues. The specific issues the department is concerned about include:</p> <ul style="list-style-type: none"> • No scientifically validated or published process for setting surface water allocations • No defined process for consideration of economic, social, cultural or environmental values in setting surface water allocation limits • Effectiveness of community consultation <p>The department will continue to work directly with the DoW to resolve these issues.</p> <p>The evidence of risk aversion in the licensing statistics¹ is concerning. This suggests an endemic issue of inefficient levels of effort on license applications, renewals, amendments and trades which applicants will be charged for. Whilst the new legislation and planning documents are expected to improve efficiency by introducing policy to more effectively manage licensing processes, an independent review of these processes may be necessary to ensure the risk aversion approach has been managed going forward.</p>
<p>Processing and Assessment of Applications for Water Licences and Permits</p>	
<p>5) The upfront application fees for new 5C licences and 5C licence renewals be differentiated</p>	<p>Analysis by the department (Attachment 2) identified that the fees and charges have a greater financial impact on smaller users (<100,000) without evidence of an equitable</p>

¹ (pg 47 Pricewaterhouse Coopers 2010)

based on the level of effort applied to applications of different risk categories (low, medium or high).

level of effort that is applied to larger users. The move to using the risk matrix approach over a volumetric charge has resulted in small water users paying a higher per kL cost for water and the same fee as significant large water users. The department recommends the DoW redevelop the matrix for determining the level of assessment to establish equity between the costs imposed on smaller users (<100,000) that are more reflective of the level of effort and risk for this segment.

Talking broadly on the horticultural industry, the application fees would represent a minor component (<2 %) of the overall costs for an investment into large scale horticultural development. Establishment costs for large scale horticulture start at least \$100,000. However, the application fee when combined with a hydro-geological assessment may present as a barrier to establishing small scale enterprises (<100,000kL). Small scale irrigated agriculture operations make an important contribution to the WA food industry by providing much of the seasonal fresh produce to the local population. Further analysis of the impact of the fees on establishing enterprises and investment is required and will be undertaken by the department in the new year.

The department supports the Authority's assessment that encourages the DoW to publish information on what is involved in providing its service. However, the department would like DoW to go further. There is some concern about the DoW approach to licensing which creates inefficiencies which the users pay for. One reoccurring theme with irrigated agriculture users is an ongoing requirement to provide further information into the application process. It would appear applicants aren't getting the right information initially to submit the correct documents with their application. There is a need to ensure applicants can access information about the process and requirements to minimise the effort by both the applicant and the DoW.

Greater understanding of the renewal process is required as many irrigated agriculture growers consider the annual license renewal fees appear high for what is considered a very simple administrative process. As part of the service standards established with the water industry committee is feedback for users on the level of effort in the assessment of their license renewal.

<p>6) The Department of Water to continue collecting data on the level of effort required to assess licence applications of different risk categories. This includes collecting data on groundwater and surface water licence applications, and applications from large customers.</p>	<p>The department supports the ongoing collection of data on the level of effort. The department is particularly concerned at the inequity between similar charges for small and large users. Further collection of data on level of effort for small and large users in C3/C4 areas should be undertaken to redevelop the matrix for determining the level of assessment.</p>
<p>7) Other licence and permit application fees be based on the average cost incurred by the Department of Water in assessing and processing each type of instrument.</p>	<p>The department doesn't support the level of charging for amendments and trading. The current approach to the fees requires further collection of data and analysis.</p> <p>An amendment to a licence can vary from a simple name change to requests for more water. When an amendment of a license is a minor administrative response, a notional charge would be more appropriate. The department suggests a list of general amendments could be established and a range of fees developed on level of effort. Where requests for further water allocations are made a risk assessment approach similar to applications for a 5C could exist to cater for the complexity.</p> <p>Limited trading of water has occurred in WA and an industry price for a temporary or permanent trade per ML doesn't exist. The department analysed trading in Harvey Water Irrigation area to context a potential market. Using the average temporary price and volumes the fee was substantially higher than the cost for water². Whilst a permanent trade may justify the charges, the department considers the proposed fee would pose as a barrier to temporary trading. This may result in an inappropriate response by users such as an illegal market of informal trades which the department knows already exists in some areas due to the lack of timeliness to the DoW process to approve trades. Of note Harvey growers wouldn't be required to pay the trading fee as they are part of a co-operative.</p> <p>The charges for trading need to be better defined and reviewed in light of the comparison to cost recovery in other jurisdictions. A risk matrix approach may provide a platform for developing complexity levels and support permanent and temporary trading</p>

² Confidential information provided to Department of Agriculture and Food

	<p>better. Regular temporary trades could have an upfront fee for the first assessment then minor administrative fee for subsequent similar trades.</p> <p>The trading within Harvey Water raises another issue on equity of the charges between self supply users and growers in co-operative structures. Irrigation co-operatives have received government support for the development of infrastructure and operating activities whereas the self supply proponents have fully funded their own operations. Not enough recognition of the self supply contribution to development has been considered in the approach when the irrigation co-operative with 55,000,000 kL will pay the same fees as a producer in a C3/C4 water resource.</p> <p>An unintended consequence of the introduction of fees is that growers may form irrigation co-operatives in catchment areas and manage the resources to reduce charges.</p> <p>It is unclear in the reports if the licence to construct or alter a well is part of the 5c application process or this is another cost that applicant will need to pay. When an application is made the fee should cover any license to construct or alter wells. If this fee is for licences outside the application process then a fee is appropriate.</p>
<p>8) The Department of Water to collect data and analyse the results to establish the different levels of effort required to assess and process other licence and permit application fees which are currently based on average costs.</p>	<p>Support</p>
<p>Providing Water Allocations and Managing the Ongoing Use of Water</p>	
<p>9) The efficient water allocation planning and environmental water planning costs, and the efficient costs of the other activities that support allocation planning, be recovered annually from users based on the total (aggregated across regions) level of effort involved in undertaking the</p>	<p>Whilst the department can support the implementation of licence application and renewal fees there is still some concern about the water management and planning charges.</p> <p>The department supports the approach of the Authority to focus less on a volume to establish water management and planning charges however, there appears a level of</p>

<p>allocation planning and related activities, but differentiated according to resource management categories and risk level. Appendix G provides information on the impact of the Authority's proposed fees and charges for a range of different licence holders.</p>	<p>inequity in the application. For example Appendix G identifies a small winery with groundwater use of 11,400 kL is paying the same fees as large horticulture enterprises (10,000,000 kL). The application risk category has been set as high for all users and there is no transparency to the segmentation of users in C3/C4 areas. The department respects that all users should contribute to water resource management and planning charges however it would appear that larger users are getting a free ride at the expense of smaller licensees. Users in C3 and C4 could be further segmented on size to reflect the range of impact on the resource.</p> <p>The department would like to see greater transparency to the application risk category and further segmentation of C3/C4 users to provide a more equitable approach to the charges.</p> <p>Further to the report (pg 57) where the Authority provided some thoughts on looking for options to consider how to manage when a large users moves into a resource changing the status to a higher risk category. The department considers all groundwater resources will move towards full allocation and a better process for managing small volume licenses in fully allocated areas as suggested above would provide a more enduring approach than surcharges or other short term options.</p> <p>In the analysis undertaken by the department it is apparent that smaller users (<100,000 kL) will pay more per kL for their water. Some industries such as the wine and table grape industries are small volume users of water. When the high establishment and running costs are annualised for this industry, the charges may have a disproportionate impact on the industry. Initial analysis undertaken identified this industry for further investigation. This analysis will be provided to the Authority directly.</p>
<p>Licensing of Water Corporation in the IWSS</p>	
<p>10) The direct licensing costs for the IWSS that are incurred each year by the Department of Water be recovered from the Water Corporation through an annual charge.</p>	<p>Support</p>

Water Metering	
<p>11) The costs incurred by the Department of Water on behalf of metered customers on the Gngangara Mound and in the Carnarvon Groundwater Area be recovered from those customers, in the form of:</p> <ul style="list-style-type: none"> • an up-front charge per meter to recover the costs of meter supply and installation for new customers (and existing customers when meters are replaced); and • an annual charge per meter to recover the average costs per meter of meter reading and maintenance for existing and new customers. 	<p>DAFWA supports metering/measurement on all commercial licences over 50,000 kL. The department suggests users should have the option of providing and maintaining their own meter/s compliant with the industry standards set by the DoW. This includes the option to read the meter and provide the figures to the DoW. The analysis identified the proposed charges for metering by DoW would increase costs to growers by up to \$17 ML on one extraction point. Many growers have multiple extraction points and the department has completed an analysis of this and will provide this information directly to the ERA.</p> <p>This provision should exist for growers in the Gngangara Mound and Carnarvon groundwater area moving forward.</p> <p>The ability for self suppliers to provide and maintain their own meter wasn't completely clear and has created some concern for growers. The department has attempted to clarify this with the relevant industry groups and growers.</p>
Water Source Protection	
<p>12) The efficient actual costs incurred by the Department of Water in providing water source protection services be recovered from the service providers (Water Corporation, Aqwest and Busselton Water) at the end of each financial year.</p>	<p>Support</p>
Cost Recovery and Indicative Fees and Charges for Other Services	
<p>13) The efficient costs incurred by the Department of Water in assessing sub-division and development applications, clearing subdivision conditions and local planning proposals be recovered from users of the services. The</p>	<p>Support</p>

<p>proposed fee to be based on the Department's average cost of assessment.</p>	
<p>14) The Department of Water to continue collection of data on the level of effort required to assess statutory referrals with low, medium or high levels of complexity to enable the introduction of more cost reflective fees in the future.</p>	<p>Support</p>
<p>15) The efficient costs incurred by the Department of Water in providing information for district planning proposals and regional planning proposals not be recovered from users of these services.</p>	<p>Support</p>
<p>16) As the cost per unit of output for the Department of Water's services to guide urban drainage and management are not available, the costs incurred by the Department in providing these services not be recovered from users at this stage. The Department of Water to continue collection of information about these services and their cost to enable the introduction of fees in the future.</p>	<p>Support</p>
<p>17) The efficient costs incurred by the Department of Water in providing floodplain management advice and water information to private parties be recovered from users of the services, unless the Department of Water provides information which shows that the costs of implementing fees for these services would outweigh the benefits.</p>	<p>Support</p>

<p>18) In addition, if the provision of water information becomes available for free from the Bureau of Meteorology, the Department of Water to wind back its water information provision service and refer any inquiries to the Bureau of Meteorology.</p>	<p>Support</p>
<p>Impacts of Fees and Charges and Implementation</p>	
<p>19) The Authority invites stakeholders to make submissions with information about capacity to pay issues in relation to the proposed water resource management and planning fees and charges.</p>	<p>Due to the limited submission timeframe the department was only able to complete a preliminary assessment of the impact on the size of irrigated water users (Attachment 2). In the new year the department will complete a more detailed analysis of the following:</p> <ul style="list-style-type: none"> • Impact of water charges on investment into irrigated agriculture • Profitability of individual horticultural industries to respond to water charges • Costs of establishing an irrigation service provider for current water users <p>The department is keen to collaborate with the DoW and the Authority with this work. This includes the development of the matrix for determining the level of assessment to improve the equity in charging across users.</p> <p>The department strongly supports the development of service standards for the Department of Water and the continued monitoring of the progress by an organisation such as the Authority.</p> <p>As a key stakeholder the department is interested to providing input into the development of service standards and performance indicators with a water industry committee.</p>
<p>20) The Authority recommends that the proposed water resource management and planning charges be phased in over a three year period as</p>	<p>The department supports the authority's recommendation to phase in charges over a number of years to allow industry time to adjust.</p> <p>Whilst the Authority has suggested a preferred approach the department would like to</p>

outlined in Appendix F.

offer a different perspective. A staged approach could initially introduce some fees, such as licensing and renewal fees, and then work towards water management and planning charges. This would allow further work to be undertaken by the DoW to collect data over a longer period of time and to clarify the private public benefit ratios.

Any introduction of fees shouldn't be a passive approach. As part of the phase in period an independent entity should actively monitor the adjustment process and complete an impact assessment of water users to capture any unintended consequences of the fees.

Attachment 2: Water Charges Analysis

Summary

The Department of Agriculture and Food undertook an analysis of the impact of charges across current water users. It identified that water users below 300 ML are paying considerably more per ML than larger operators. Trigger points appear at 300 ML and 750 ML where the impact of the charges on users changes. The use of self supply metering reduces the costs for smaller users under

Methodology

For the purposes of this analysis the proposed water charges have been divided into 3 separate components:

1. Renewal fees
2. Water resource management and planning fees
3. Metering costs and fees

In order to derive the annual cost of a water entitlement, the longer term and capital items have been annualised. This includes the base, or capital, cost plus the average cost of finance over the life of the item.

Renewal fees are assumed to be for an existing license. Charges for a new licence are greater and not analysed. This is an average of the low to high cost structure for the renewal of a 5c licence. This cost equates to \$129 per annum per license. Additionally an allowance for 2 amendments to each license is assumed to be incurred over a 15 year period. Each amendment is an average of the 4 types of charges (\$2,162 each). This equates to an annualised cost of \$440 per annum.

Water resource management and planning fees are annual costs per license. These are as per proposed fee structure.

Metering costs are based on a single source. The capital cost of the meter is annualised and incorporates the cost of finance (based on a life of 10 years). The capital cost varies between the DoW metering and self supply structures - \$3,518 and \$1,100 respectively. These capital costs realise an annualised cost of \$475 and \$149 for the DoW metering and self supply structures respectively. Reading costs are annual costs. The DoW metering is \$935 and the self supply structure was given an allowance of \$10 for the licensee to read own meter. Licenses of 50 ML or less have no requirement to meter the use and thus metering costs for these licenses are not included.

Results

In Figure 1 with the current cost structure and charges for metering by DoW growers with an allocation below 300 ML are paying significantly more per ML. As the water allocation increases the impact of the charges on grower's decreases. When metering charges are replaced with self supply (Figure 2) there is no impact on growers under 50 ML. However, the cost for growers using over 50 ML is up to approximately \$17/ML lower.

Further investigation is required of the impact on specific industries such as the wine and table grape where the licensed allocation is small (50,000 kL).

Analysis was undertaken with multiple extraction points which would occur as allocations increase. This analysis will be provided directly to the Authority to assist in the overall analysis of irrigated agriculture.

It appears trigger points exist at 300 ML and 750 ML where charges per ML change.

Table 1 and 2 provide the detailed information to the Figures.

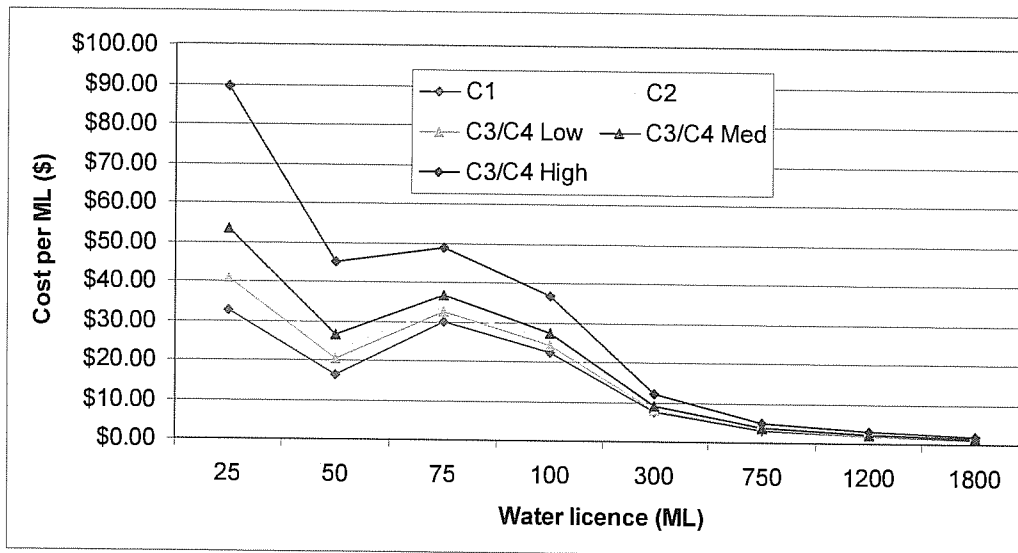


Figure 1: Fee structure with DoW metering (one source, average of 5C renewal cost)

Table 1: Fee structure with DoW metering (one source, average of 5C renewal cost)

Existing License (ML)	25	50	75	100	300	750	1200	1800
C1	\$815	\$815	\$2,225	\$2,225	\$2,225	\$2,225	\$2,225	\$2,225
C2	\$1,108	\$1,108	\$2,518	\$2,518	\$2,518	\$2,518	\$2,518	\$2,518
C3/C4 Low	\$1,022	\$1,022	\$2,432	\$2,432	\$2,432	\$2,432	\$2,432	\$2,432
C3/C4 Med	\$1,326	\$1,326	\$2,736	\$2,736	\$2,736	\$2,736	\$2,736	\$2,736
C3/C4 High	\$2,238	\$2,238	\$3,648	\$3,648	\$3,648	\$3,648	\$3,648	\$3,648
Cost per ML								
C1	\$32.59	\$16.30	\$29.66	\$22.25	\$7.42	\$2.97	\$1.85	\$1.24
C2	\$44.31	\$22.16	\$33.57	\$25.18	\$8.39	\$3.36	\$2.10	\$1.40
C3/C4 Low	\$40.87	\$20.44	\$32.42	\$24.32	\$8.11	\$3.24	\$2.03	\$1.35
C3/C4 Med	\$53.03	\$26.52	\$36.48	\$27.36	\$9.12	\$3.65	\$2.28	\$1.52
C3/C4 High	\$89.51	\$44.76	\$48.64	\$36.48	\$12.16	\$4.86	\$3.04	\$2.03

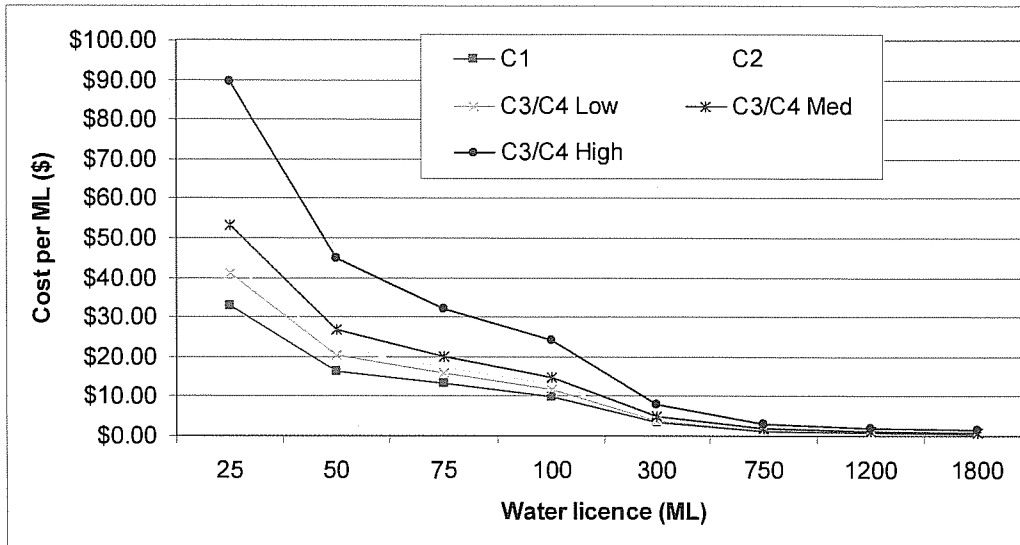


Figure 2: Fee structure with self supply metering (one source, average of 5C renewal cost)

Table 2: Fee structure with self supply metering (one source, average of 5C renewal cost)

Existing License (ML)	25	50	75	100	300	750	1200	1800
C1	\$815	\$815	\$973	\$973	\$973	\$973	\$973	\$973
C2	\$1,108	\$1,108	\$1,266	\$1,266	\$1,266	\$1,266	\$1,266	\$1,266
C3/C4 Low	\$1,022	\$1,022	\$1,180	\$1,180	\$1,180	\$1,180	\$1,180	\$1,180
C3/C4 Med	\$1,326	\$1,326	\$1,484	\$1,484	\$1,484	\$1,484	\$1,484	\$1,484
C3/C4 High	\$2,238	\$2,238	\$2,396	\$2,396	\$2,396	\$2,396	\$2,396	\$2,396
Cost per ML								
C1	\$32.59	\$16.30	\$12.98	\$9.73	\$3.24	\$1.30	\$0.81	\$0.54
C2	\$44.31	\$22.16	\$16.88	\$12.66	\$4.22	\$1.69	\$1.06	\$0.70
C3/C4 Low	\$40.87	\$20.44	\$15.74	\$11.80	\$3.93	\$1.57	\$0.98	\$0.66
C3/C4 Med	\$53.03	\$26.52	\$19.79	\$14.84	\$4.95	\$1.98	\$1.24	\$0.82
C3/C4 High	\$89.51	\$44.76	\$31.95	\$23.96	\$7.99	\$3.20	\$2.00	\$1.33