

Our ref: TBA
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Mr Lyndon Rowe
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Economic Regulation Authority
Level 6, 197 St Georges Terrace
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Dear Mr Rowe

RESPONSE TO ISSUES PAPER: INQUIRY ON HARVEY WATER BULK WATER PRICING

The Department of Water (DoW) welcomes the opportunity to make a submission in response to the issues paper released by the Economic Regulation Authority (ERA) as part of its inquiry on Harvey Water Bulk Water Pricing.

At this stage of the inquiry process, the DoW would like to note its support for the inquiry and make a number of general comments on some of the main issues in the inquiry. The DoW looks forward to participating further in the inquiry process after the release of the draft report.

As the ERA is aware, the Western Australian Government recently signed the National Water Initiative (NWI) confirming its commitment to water reform. By signing the NWI, the Government has agreed, along with all State and Territory governments, to bring into effect 'pricing policies for water storage and delivery in rural and urban systems that facilitate efficient water use and water trade in entitlements' (NWI, paragraph 65).

In the context of the current inquiry into bulk water pricing, the DoW believes it important that pricing principles are followed that are consistent with meeting the state's obligations under the NWI. As noted in the terms of reference for the inquiry, application of NWI pricing principles would mean adopting a 'full costing' method when modelling the costs associated with operating and maintaining water storage infrastructure.

Although the full costing method has the advantage of complying with NWI commitments, it also has the potential to result in higher costs being incurred by South West irrigators, relative that is to the costs incurred under the 'renewal method' of costing (the method used to estimate the costs in the initial bulk water services agreement in 1996). The potential for higher costs arises primarily because of the inclusion of a rate of return on the dam assets in the full costing method (which is not the case in the renewal method of costing). The level of costs will also be significantly influenced by the determination on the initial valuation of the dam assets.

However, as was indicated in the issues paper, there is uncertainty as to what constitutes an appropriate rate of return, and how the value of existing dam assets is to be valued. Consequently, the actual outcomes in terms of cost of adopting the full costing method remain uncertain. The DoW looks forward to examining the methodology underlying the determination of the costs likely to be incurred by irrigators under the full costing method relative to the renewal method in the forthcoming draft report.

Separate to the issue of costing methodology is the determination of the amount of dam safety expenditure to be included in future costs for irrigators. As noted in the issues paper, the Water Corporation, in the absence of state-based regulations on dam safety, adopted the framework of guidelines and risk standards set by the Australian National Committee on Large Dams (ANCOLD). The use of the ANCOLD guidelines raises a number of issues concerning the efficient and equitable provision of dam safety that the DoW considers requires further exploration in the draft report.

Firstly, when it comes to dam safety guidelines, most other jurisdictions appear to have implemented state-based regimes which permit risk-based approaches to implementing dam safety measures (often based on the ANCOLD guidelines). It would be useful to explore further the nature of these regimes and how risk tradeoffs are considered under these regimes.

Secondly, as noted in the issues paper, adoption of the ANCOLD guidelines for dam safety may mean that, in some instances, the level of risk of adverse outcomes for the community associated with dam usage is lower than is tolerated in other areas of public safety. In the absence of alternative risk management regimes (whole-of-government or state-based guidelines are likely to be impractical in the short term), ANCOLD guidelines may remain the preferred means of determining dam safety standards. However, adopting them has implications from an equity and fairness perspective if irrigators are required to pay for a level of safety that is greater than that accepted, or tolerated, in other areas of public activities.

In addition to noting that it supports in principle the application of the impactor pays approach to recovering expenditure on dam safety, the DoW also supports the further exploration of issues outlined in the draft report, particularly with respect to assessment of non-direct benefits arising from dam infrastructure, and the existence of potential legacy costs.

Yours sincerely

Hazel Kural
Manager, Water Reform Taskforce
13 November 2006