

WLS sub 22

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Economics and Industry Standing Committee
Legislative Assembly
Parliament House
PERTH WA 6000



Dear Dr Abernethie

Parliamentary Inquiry – Water Licensing and Services

Thank you for the opportunity to provide input to the *Inquiry into Water Licensing and Services* being undertaken by the Economics and Industry Standing Committee.

The South West Development Commission strongly supports the need for increased management of water resources in the South West Region.

Comments on the specific matters to be considered during this Inquiry are submitted as follows:

1.) *The benefits to, cost to and imposts on irrigators, industry, community and environment of a licensing system for the taking of water from groundwater or stream flow.*

To achieve the desired outcome of increased management of water resources in the South West, a regulated licensing regime that is inclusive of all users is required to ensure sufficient measurement, monitoring and control of all water resources occurs.

The past 25 years has seen substantial rainfall decline in the South West with climate change predictions favouring a further likely drying of the region. Understanding the true sustainable yield of aquifers and surface catchment areas will be critical. The community at large will benefit from this knowledge through enhanced planning to ensure sufficient water is available for recreational, commercial, industrial, domestic and agricultural purposes. All as beneficiaries therefore, directly or indirectly (as taxpayers), need to contribute toward these costs.

Improved information management systems combined with increased knowledge of what is occurring in surface and groundwater systems across the South West is essential. It needs to be recognised that greater water security/certainty can only be achieved through increased rainfall (which is beyond our direct control) or more stringent prudent management of existing resources to prevent over allocation.



While the majority of the South West Region's water resources are not over allocated it is already evident through complaints raised by self supply dam owners in relation to alleged declining stream flow due to timber plantations that localised over use of resources is occurring. In areas where commercial activities, often driven by managed investment scheme funding (e.g. plantations, viticulture or horticulture), are intensively located the potential for concentrated use of water in a given locality appears certain to occur.

As the South West continues to develop it would appear certain that within given sub regions that the allocation of the sustainable water yield will be reached in the next 10-20 years. This will likely leave some who desire access to water resources for commercial purposes needing to secure water from a fully allocated pool. Security for those who already hold licensed entitlement and those seeking access to it will be paramount. This can only be achieved by rigorous management and monitoring of the resource and is a benefit that users should be prepared to contribute towards.

2.) The full cost incurred by the Department of Water for administration of the current water licence system.

Based upon documentation provided (see Attachment A) by Department of Water (DOW) to the Commission, an approach that assesses the proportion of work/hours directly and indirectly dedicated to each water entitlement holder in regard to licensing has been used. While an independent assessment of the validity of the hours allocated may be worthwhile for the purpose of transparency, the methodology used appears an acceptable process that reflects DOW's involvement with licensing.

The Commission does note that in proposing its schedule of fees for cost recovery concern has been raised by small licence holders over an apparent disparity between themselves and larger licensees. At the lower end per megalitre charges have been in the range of \$3-\$20/megalitre (class 1&2) while at less than \$0.60/megalitre for larger entities in class 8. Mid-sized licences in class 3-7 range between \$0.40-\$2.50/megalitre.

It is natural that comparisons of this nature will occur, however, it should be understood that larger licensees (e.g. mining, potable suppliers and cooperatives) are required, under their licence, to provide back to the State extensive monitoring, metering and measurement data that is not demanded from smaller users. Responsibility for undertaking such detailed work in aquifers and catchments where smaller licensees operate remains with DOW.

The South West Development Commission strongly supports the use of an independent authority to determine any water charges applied to users. This should be undertaken within a framework that parallels the operations of the Independent Pricing & Regulatory Tribunal (IPART) of New South Wales where cost recovery pathways are set, reviews of the state water agency's costs occur, and the capacity of users to pay is considered.

3.) The extent to which the water licence administration fees meet cost recovery requirements the National Water Initiative (NWI) places on the State with respect to services delivered to water users.

Under clauses 64 to 77 (Best Practice Water Pricing and Institutional Arrangements), signatories to the NWI are clearly required to address a range of issues relating to water costs and planning. Clause 67 “Cost Recovery for Planning and Management” stipulates that “(b) charges are linked as closely as possible to the costs of activities or products”. The WA State Government therefore is substantially compelled to create a charging regime that is consistent with clause 67.

Notwithstanding the requirements of clause 67 the Commission does note that clause 68 affords some flexibility in regard to the size and graduated application of such fees. Under clause 68, public reporting of these charges must occur explaining how and “the basis upon which this proportion is determined”. Should the State Government see fit to apply only part of these charges and fund the remainder of these costs through a Community Service Obligation (CSO) payment it may still be compliant provided this is reported transparently. Clarification on this item should be sought by the Standing Committee from the National Competition Council.

In examining the application of various water charges regimes in interstate jurisdictions of Australia it is evident that the applicable charge varies from the form of water user (groundwater, public dam or private dam) and on a catchment by catchment, aquifer by aquifer basis. Similarly the time period to full cost recovery has been determined with the assistance of a third party (normally the given state’s economic regulatory authority) to create greater transparency. The South West Development Commission considers an approach in line with the interstate practice which already complies with the NWI would be worth consideration.

4.) The penalty or cost that might be applied to Western Australia by the Commonwealth under the NWI, if there was minimal or no cost recovery for services provided to water users by the Department of Water.

At this time it is unclear to the Commission what form or scope any penalties to Western Australia would take if a minimal or no cost recovery approach was to be adopted. The NWI documentation available to the Commission does not present any form of table detailing a penalty regime. Should such an approach be adopted Western Australia would still be required to comply with clause 68 and report the proportion of State contribution to water planning, management and licensing.

Penalties taking the form of reductions in the level of national competition payments do exist. In the most recent National Competition Policy (NCP) Follow Up Assessment of Water Reform process in Western Australia, a penalty totalling \$4 million or five per cent of payment was applied due to non compliance. It is likely similar would apply in the future should Western Australia choose to adopt a process inconsistent with its interstate counterparts.

5.) Whether water licences and/or licence administration fees should be required for taking water under arrangements that are currently exempt; for example, residential bores drawing from an unconfined aquifer.

The Commission notes that small 'backyard' non-commercial bore holders have been exempted from the proposed water licence administration fees. This is a position supported by the Commission as this would impact upon many water licence users within the South West who primarily use water for stock and garden purposes. It would appear based on statements from the Department of Water that the overall administration of such a service to recover the charges would have minimal cost benefit.

In examining interstate practices for water licence and water resource management charges the Commission believes a different approach to recognise the management costs relating to this user group should be considered. It is clearly evident that extraction of water from the superficial aquifer or even what appears to be shallow confined aquifers needs assessment, monitoring and incorporating into water planning by the State. It is also arguable, although varying from location to location, that extraction from these shallow superficial aquifers does impact on the amount of water that passes to deeper aquifers again requiring consideration in planning decision-making. On this basis it would appear undeniable that DOW is dedicating staff, time and physical resources, and incurs costs toward the planning and management related to small bore water extraction.

The Commission proposes that these costs should be clearly identified by DOW and independently reviewed by the State's Economic Regulation Authority as applies in other state jurisdictions around Australia. If the State Government chooses not to directly recover these costs from small bore users these costs should be supported by Treasury through a Community Service Obligation (CSO) rather than passed onto other forms of licensed water holders. It is important that in such a process transparency exists. This would create a degree of confidence in larger water users that any charges applied to them relate only to the benefit they receive and are not used to cover DOW's costs incurred through management of small bore holder areas.

6.) What recognition needs to be given to the cost incurred by landholders in harvesting water, including dam construction costs?

Considerable comment has been made in relation to private infrastructure investment and comparisons between self supply dams, groundwater extraction and public dams. The attached table (Attachment B) has been prepared to provide a valid comparison between each form of water user and the actions of water storage, transfer of water to point of application, form of application and overall catchment/aquifer management of water.

In relation to the cost incurred for on-farm storage of water paid for by self supply dam users, the Commission believes that no water storage charge (as per that which is applied to cooperatives for bulk water licences) should apply. The Commission notes that under the State Water Blueprint and the National Water Initiative no such proposals exists and believes this position should be maintained.

However, in relation to overarching catchment/aquifer planning of water resources and their licensing, the Commission supports the position that all commercial water users should contribute to meet these costs based upon the costs incurred as they relate to their given aquifer or catchment area.

7.) The extent to which the NWI provides for a range of different licensing systems.

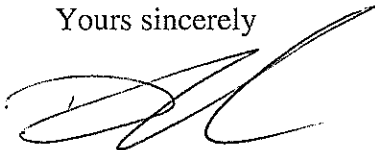
Rather than specifying a 100 per cent definitive licensing regime the NWI does allow some scope for flexibility. However, key principles need to be met such as sound accounting of all water used, robust measurement and monitoring systems, clear plans for water sharing, compliance, metering, water use efficiency and overall data collection.

Scope has been provided to ensure that licensing regimes can be designed to fit the given circumstances of the particular source being managed. Notwithstanding this, it should be recognised that as any source pushes closer to the determined sustainable yield threshold the form of works (e.g. metering, measuring and monitoring) undertaken to support the licensing system of a given catchment will likely increasingly be the same.

Given the nature of the drying climate in the South West of Western Australia the need for a robust support regime to back-up the licensing system is imperative.

Thank you again for the invitation to provide feedback on this very important issue for the South West and the State.

Yours sincerely



DON PUNCH
CHIEF EXECUTIVE OFFICER

7 December 2007

SUBJECT: WATER LICENCE ADMINISTRATION FEES

- Supporting information and calculations on how the original water licence administration fee was determined and is detailed in Attachment 1.
Previous calculations using the same methodology were provided to Department of Premier and Cabinet and subsequently included in the July 2006 *Draft blueprint for water reform in Western Australia Discussion*
- A comparison of water licence administration fees was undertaken and can be found in the July 2006 *Draft blueprint for water reform in Western Australia Discussion Paper Water* and is available from the DoW website at www.water.wa.gov.au.
- The DoW Capital Fund budget for 2007-2008 has been reduced by the \$5.8M expected to be recovered from water licence administration fees.
- Details of activities undertaken in the five categories involved in administration of water licences are detailed in Attachment 1.
- Number of staff involved in the administration of water licences is shown in Table 1.

Table 1

Water licensing Staff and Salaries by Region 2007/2008		
DoW Region	Staff FTE's	Salary Costs \$
Swan Avon	16.4	1,118,000
South West	15.8	905,000
Kwinana Peel	4	365,000
Pilbara	3	206,000
Kimberley	2	157,000
Mid West	9	509,000
South Coast	2	128,000
Goldfields	Contracted	61,000
Perth Head Office	9	509,000
	61.2	

1. Figures based on data in the 2007-2008 Project Management System
2. Figures for Perth Head Office are direct licensing support staff

ATTACHMENT 1

ORIGINAL CALCULATIONS TO DETERMINE THE WATER LICENCE APPLICATION AND ADMINISTRATION FEES

BACKGROUND

The Government Response to the Final Report of the Irrigation Review Steering Committee agreed that it is appropriate to recover the costs associated with the administration of water licensing.

CURRENT STATUS

The Water Reform Implementation Committee facilitated a number of community workshops on the Draft Blue Print for Water Reform in Western Australia.

A number of recommendations were provided by the Water Reform Implementation Committee to Government regarding water licence administration fees. These recommendations included:

“That the Department of Water provide information to all licence holders in advance of fees being levied on what the fee recovery is for and how the fees are calculated”

A water licence is a tangible and valuable right to a tradable asset for licence holders predominantly engaged in commercial activities. Licences enable allocation decisions that reflect the efficient long term management of the water resource for the community's benefit (including environmental concerns) and provide the certainty of supply that businesses desire.

It is no longer commonplace for governments to completely fund resource management and administration without some level of cost recovery from users. As outlined in the Draft Blue Print, only Western Australia and the Northern Territory do not charge water licence administration fees.

COSTS TO BE RECOVERED FROM A LICENCE ADMINISTRATION FEE

The recovery of licence administration costs would be for assessment of applications and licence renewals, checking compliance with licence conditions, maintaining licensing databases, management of appeals and community awareness (water resource management committees) since these activities are directly related to the creation and protection of water users' valuable entitlements.

NB: It is important to note that the below figures are extracted from the 2005/2006 budget figures and not 2006/2007 figures. The figure below does not account for costs associated with the implementation or administration/maintenance of a licence administration fee system.

Department of Water

Table 1: DoW costs associated with licensing for 2005/2006

Deliverable:	Cost:	Number of Projects
Licensing	\$4,145,918	12
Compliance	\$812,875	7
State Administrative Tribunal	\$237,965	4
Community Input (WRMCs)	\$243,653	4
Licensing Support (database administration)	\$386,986	3
Total	\$5,827,397	30

Licensing

Refers to all receipting and assessment of:

- 5C Licences to Take Water (including new applications, renewals, amendments);
- Transfer, trades and agreements to Take Water (5C);
- 26D Licences to Construct or Alter Wells (including new applications and amendments); and
- 11/17/21A Permits to Interfere or Obstruct Bed and Banks (including new applications and amendments).

The *Rights in Water and Irrigation Act 1914* require DoW to have regard to certain matters when assessing an application that include but not limited to:

- Determine eligibility to hold a licence;
- Advertising of application;
- Ecological sustainable;
- Environmentally acceptable;
- Prejudice current and future needs for water;
- Are in keeping with local practice, relevant by-laws and relevant decisions of Committees; and
- Consistent with land use planning instruments, policies of other Government Agencies and intergovernmental agreements.

Compliance

There are costs associated with surveys and enforcement actions. Surveys form an integral part of ensuring the compliance with licence terms and conditions. Surveys are carried out, both during assessment and after the issuing of a licence and include inspection of properties.

Enforcement action refers to the action taken by the DoW when there is a breach of licence terms and conditions, or a breach of the *Rights in Water and Irrigation Act 1914*. This would include meetings and interviews with licensees and the physical gathering of evidences, as well as the preparation for and participation in legal proceedings.

State Administrative Tribunal

Any appeals against the decision of the Commission are assessed by the State Administrative Tribunal (SAT). Actions include collation of papers, evidence and supporting documents for both the SAT Tribunal and the appellant.

With declining availability of water resources there is a corresponding increase in appeals against DoW decisions to refuse applications.

Community Input

Costs associated with managing and supporting community based Water Resource Management Committees and Advisory Committees. The cost includes sitting fees and travelling expenses for members as well as venue and catering expenses.

A smaller proportion of the cost goes towards community education on water resources that include the provision of up to date information on water availability and other pressing local issues via the print media.

Licensing Support

Licensing support includes costs for:

- database maintenance and enhancements, including data validation and cleansing;
- delivery of training to regional licensing officers; and
- providing supporting expertise for regional licensing staff.

CALCULATING THE WATER LICENSING ADMINISTRATION FEE

The aim of the Water Licensing Administration Fee was to fully recover the \$5.8M in costs associated with administering and maintaining water licences and integral licensing systems. To do this, the following information needed to be defined:

- Number of entitlement classes of licences according to the amount of work required for that volume;
- The portion of budget spent in that category; and
- The costs to be recovered (total DoW licensing budget for 2005/2006 financial year).

The costs to be recovered have been outlined in the previous section.

LICENCE CLASSES

The initial proposal put forward contained five licence classes that were based on the amount of effort required to administer licences of different water entitlements. Based on the feedback from the community workshops for the Draft Blue Print, this has been reviewed to form seven licence classes. The DoW suggests using an additional two classes (seven-band structure) outlined in Table 2. The revised structure contains additional bands at the top end of licensing.

Table 2: Revised entitlement classes

Original Licence Class	Original Entitlement Class	New Licence Class	New Entitlement Class
1	0 - 5,000	1	0 - 5,000
2	5,001 - 50,000	2	5,001 - 50,000
3	50,001 - 500,000	3	50,001 - 100,000
		4	100,001 - 500,000
4	500,001 - 5,000,000	5	500,001 - 1,000,000
		6	1,000,001 - 5,000,000
7	> 5,000,000	7	> 5,000,000

These classes were defined by the level of work, estimated number of hours required, in assessing and maintaining a licence/permit. Table 3 outlines the development of these classes.

Table 3: Description of Licence Class

Entitlement Class (kL)	Description	Hours / licence
0 – 5,000	Fast track assessments - small domestic, non-commercial activities, hobby farms. Includes all 26D licences (new, renew and amended), 11/17/21A permits (new, renew and amended) and all 5C licences for allocations less than 5,000 kL per annum (new, renew, amended, transfers, trades and agreements).	7
5,000 – 50,000	Some fast track assessments for 5C licences - generally commercial, large scale domestic.	11
50,000 – 100,000	Moderate assessment requirements for 5C licences, no fast track assessments.	20
100,000 – 500,000	Moderate assessment requirements for 5C licences, compulsory advertising and review of submissions.	40
500,000 – 1,000,000	Full assessment required for 5C licences, metering conditions, reporting requirements.	60
1,000,000 – 5,000,000	Full assessment required for 5C licences, operating strategies, hydrogeology reporting, metering.	80
> 5,000,000	Full assessment required for 5C licences, operating strategies, hydrogeology report, metering, DoW modelling and hydrology work.	100+

Determining the portion of budget for each licence class for the recovery of \$5.8M

The portion of budget assigned to an entitlement class is calculated by:

- 'No of licences per class x hours of work = total hours of work per category;'
- 'Total hours of work per category / total hours of work = percentage; and'
- 'Total cost to recover per category = % of total work of category x total budget.'

Department of Water

Table 4: Budget requirements for 7 licence classes prior to the exclusion of licences for stock and domestic

category	Licences in force	*Hours per instrument	total hours per category	breakdown	portion of budget required	average cost per annum
1: 0 - 5,000	5279	7	36953	19%	\$1,098,644.43	\$208.12
2: 5,001 - 50,000	5,752	11	63272	32%	\$1,881,130.90	\$327.04
3: 50,001 - 100,000	1,114	20	22280	11%	\$662,403.54	\$594.62
4: 100,001 - 500,000	898	40	35920	18%	\$1,067,932.45	\$1,189.23
5: 500,001 - 1,000,000	179	60	10740	5%	\$319,309.42	\$1,783.85
6: 1,000,001 - 5,000,000	253	80	20240	10%	\$601,752.58	\$2,378.47
7: > 5,000,000	66	100	6600	3%	\$196,223.67	\$2,973.09
Total	13541		196005	100%	\$5,827,397.00	

HOW THE LICENCE ADMINISTRATION FEE WORKS

The licence administration fee would utilise the seven tiered entitlement classes in much the same manner as the original five tiered entitlement classes.

On receipt of application, users would be required to pay an initial \$200. This fee is non-refundable and would apply to:

- New application for a section 5C licence to Take Water;
- New application for a section 26D licence to Construct or Alter a Well;
- New applications for section 11/17/21A permits to Obstruct or Interfere with Bed and Banks;
- Transfer applications for 5C licences;
- Trade applications for 5C licences; and
- Agreement applications for 5C licences.

The initial application fee will not apply to renewal applications (for all licences and permits) or amendment applications for 5C licences.

Refunds would only be available for applications where a licence is not required. Applications resulting in a refusal to grant the licence or permit or applications which are withdrawn would still be liable for the application fee.

Table 5 Licence classes

Licence Class	Approx. fee required to achieve full cost recovery	% recovery of proposed water licence administration costs	Proposed annual fee (per licence)	Revenue from Annual Licence Fee (\$)
1	\$208.12	100%	\$200.00	1,055,800
2	\$327.04	100%	\$325.00	1,869,400
3	\$594.62	100%	\$600.00	668,400
4	\$1,189.23	100%	\$1,200.00	1,077,600
5	\$1,783.85	100%	\$1,800.00	322,200
6	\$2,378.47	100%	\$2,400.00	607,200
7	\$2,973.09	100%	\$3,000.00	198,000
Total Revenue				5,798,600

Department of Water

Upon grant of a licence, the licensee would be liable for the outstanding amount of the annual fee within the entitlement class. On subsequent anniversary of the issue date, an invoice for the corresponding entitlement amount would be issued.

Example 1:

Jo Smith applies for a licence to take water for 3,500 kL, (class 1) on 21 May 2006. The licence is granted and issued on 30 May 2006. What costs will Jo have to pay?

On Application (21 May 2006):	\$200
On Issue of licence (30 May 2006):	\$0
On anniversary of issue (30 May 2007) and every year for duration of licence	\$200

Example 2:

ACME Mining applies for a licence to take water for 575,000 kL, (class 5) on 21 May 2006. The licence is granted and issued on 30 May 2006. What costs will ACME Mining have to pay?

On Application (21 May 2006):	\$200
On Issue of licence (30 May 2006):	\$1,600
On anniversary of issue (30 May 2007) and every year for duration of licence:	\$1,800

Impacts of the proposed licence fees

Table 8: Examples of costs for typical water users

User type	Water licence administration fees
Domestic scheme and garden bore user	\$0
Commercial scheme water user	\$0
Stock and rural domestic user	\$0
Off-stream farm dam user	\$0
Small dairy (1 licence)	\$200
Small Wanneroo vegetable grower (1 licence)	\$325
Large vineyard (50ha) (1 licence)	\$600
Large (export) vegetable grower (1 licence)	\$1,800
Large irrigation cooperative (eg Ord) (1 licence)	\$3,000
AQWEST (Bunbury Water Board) (2 licences)	\$4,800
LGA (eg City of Swan with 91 licences prior to amalgamation of licences)	\$32,100
LGA (eg City of Swan with 13 licences after amalgamation)	\$10,625
Mine (eg. BHP with 55 licences)	\$51,125
Water Corporation (231 licences)	\$317,600

WATER COSTS IN WESTERN AUSTRALIAN IRRIGATION

With the proposed implementation of water administration charges in Western Australia considerable public discussion in agricultural circles has centred on how these charges have been derived and how water costs are paid by different irrigators throughout the State.

Responses to the proposed water administration charges have led to numerous individuals or representative organisations making claims and comparisons about costs of these charges in differing localities within Western Australia. Much confusion is also being created by the merging together of various water costs borne by farmers when these comments have been made public.

The following information has been prepared to enable a more balanced understanding of water costs borne by all irrigators in Western Australia and nationally.

COST ASSOCIATED WITH THE USE OF WATER IN DIFFERENT SYSTEMS

EXPENSE ITEM	<i>Schemes Supply (e.g. Ord & Harvey)</i>	<i>Self Supply Dams (e.g. Warren Lefroy, Donnybrook)</i>	<i>Self Supply Groundwater Bores (e.g. Scott River, Jindong, Myalup)</i>
WATER STORAGE	- Water is held in dam storages owned by the State Government. - Irrigation Cooperatives pay Bulk Water Storage Charges determined by the Economic Regulation Authority (ERA).	- Irrigators have paid one off capital costs to create their own storages. - No water storage charge is proposed by State or Federal Government.	- Irrigators have not invested nor incur any annual water storage costs. - No water storage charge is proposed by State or Federal Government.
TRANSFER OF WATER FROM STORAGE TO POINT OF APPLICATION	Irrigators pay charges to their Cooperative for delivery of water from the dam storage to their individual farm property.	Irrigators as individuals own and maintain their infrastructure used to transfer water from dam storage to point of application.	Irrigators have constructed their own bore fields and are responsible as individuals for maintenance and operations relating to water extraction.
METHOD OF IRRIGATION APPLICATION	Irrigators pay for all filter tanks, drip lines, centre pivots, laser leveling, head channels and power costs associated with application of water dependent on the type of agricultural production undertaken.	Irrigators pay for all filter tanks, drip lines, centre pivots, laser leveling, head channels and power costs associated with application of water dependent on the type of agricultural production undertaken.	Irrigators pay for all filter tanks, drip lines, centre pivots, laser leveling, head channels and power costs associated with application of water dependent on the type of agricultural production undertaken.
WATER ADMINISTRATION	- Is undertaken by Department of Water. - Cooperatives currently coordinate and provide all metering, monitoring, measurement and database management required for whole of catchment management in their area of operation for reporting annually to DOW as part of licence arrangements.	- Is undertaken by Department of Water. - At this time self supply irrigators do not have an organised entity in place to independently undertake monitoring, metering and reporting at a whole of catchment level.	- Is undertaken by Department of Water. - At this time groundwater irrigators do not have an organised entity in place to independently undertake monitoring, metering and reporting at a whole of catchment level.