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CHAMBER OF COMMERCE AND INDUSTRY  
WESTERN AUSTRALIA

Review of first-in first-served policy  
Strategic Policy Division  
Department of Water  
PO Box K822  
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3 November 2011

To Whom It May Concern

**Review of first-in first-served policy**

CCIWA welcomes the opportunity to comment on the Review of the first-in first-served policy.

CCI is the leading business association in Western Australia and the second largest organisation of its kind in Australia. CCI has a membership of more than 6,500 organisations in all sectors of the economy. About 80 per cent of members are small businesses, and members are located in all geographical regions of WA.

Water is a key enabler of business activity and economic growth in WA and a secure water supply is vital for economic and community development. Approximately 80 per cent of water usage in WA is non-potable and is primarily used for commercial purposes.<sup>1</sup> Given this context and a drying climate, it is vital that governance and market arrangements for water in WA efficiently allocate water to the highest value uses and promote the efficient use of water.

Allocation mechanisms are only one part of the necessary reforms and need to be accompanied by broader efforts to create efficient and effective water entitlements and trading.

CCI recommends the State Government:

- adjust water allocation mechanisms as part of a wider approach to reform including necessary legislative changes to create secure and fully tradeable water access entitlements;
- introduce auction mechanisms to allocate water for sources where there is a relatively high degree of competition;
- maintain the first-in first-served approach for water sources where competition is likely to remain extremely limited;
- consult with industry and the community on the development of the auction process;
- investigate a range of alternative thresholds at which an auction might be used taking into account different sources and their relative scarcity; and
- explore how to appropriately value future water use in particular through fully tradeable water access entitlements.

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<sup>1</sup> Department of Water, *Annual Report 2011*

### **The need for broader reform**

CCI is strongly supportive of a market based approach to allocating water entitlements as described in the discussion paper. However, we urge the Government not to consider this element of reform in isolation of other elements. An auction mechanism is in fact unlikely to be fully effective without broader reforms. These include:

- legislative changes to meet WA's National Water Initiative (NWI) commitments in particular to create secure and fully tradeable water access entitlements;
- independent arrangements for augmenting water supply;
- demand side management;
- limiting future water reservation policies to public drinking water supplies; and
- policies for moving water out of an area.

### **First-in first-served policy**

CCI agrees that the first-in first-served approach can prove an efficient, fair and equitable means of allocating water where competition for water is likely to remain extremely limited. However, where greater competition is present or likely, and where a market can be established, this is not the most efficient approach.

Around 28 per cent of the State's groundwater and 14 per cent of surface water sources are already over 70 per cent allocated under the first-in first-served approach. In these highly allocated sources greater certainty is needed so that water is available for high-value uses now and in the future. Market-based approaches to allocating water, combined with legislative reform to implement an effective trading regime as outlined above, represent the best method for achieving this goal.

### **Market mechanisms for allocating water**

Where competition for new water allocations is present or likely, CCI agrees with the discussion paper that market mechanisms, and particularly auctions, are the best approaches. An auction for perpetual and fully tradeable water rights would:

- allocate water to the highest value use;
- encourage greater water use efficiency and reuse;
- create greater transparency about water sources and demand; and
- be consistent with the NWI, to which WA is a signatory.

The other approaches outlined in the discussion paper (merit selection, direct sale, ballot, tender) would not deliver water as efficiently, fairly and equitably.

- Merit selection approaches are very dependent on the criteria employed, can be highly subjective and do not directly incentivise greater water use efficiency through pricing mechanisms.
- Ballot approaches would not allocate water to the highest value use and do not incentivise greater water use efficiency.
- Direct sale approaches would require significant knowledge of levels of demand for water and its value.
- Tenders, by enabling additional factors other than price to influence an allocation decision, suffer similar disadvantages to the merit selection approach.

### **Further issues**

While supporting an auction approach, CCI would like to highlight a range of issues that will need to be addressed to ensure that such a mechanism operates efficiently and effectively. These are in addition to those issues outlined above surrounding the need for broader water reform.

### *Detailed auction design*

As per the discussion paper, we agree that detailed auction design needs to be considered further. CCI and its members look forward to working with the Department of Water on this issue moving forward.

### *Threshold for an alternative to first-in first-served*

CCI agrees that for water sources with particularly low allocation levels the costs of running an auction or other mechanism may exceed the value of the unallocated water itself. However, it is not clear that a threshold of 70 per cent as proposed in the discussion paper represents the most efficient point to commence an alternative mechanism. Indeed at 70 per cent water allocations from a particularly source could be considered relatively scarce. As part of further policy design work, we urge the Department to investigate a range of alternative thresholds and how these might apply across a range of different circumstances – locations, water sources and current allocation levels.

Careful consideration also needs to be given to the potential to distort the market by applying for water allocations as the threshold is approached – i.e. by hoarding water allocations received under the first-in first-served approach before auctions commence. “Use it or lose it” provisions for allocations under the first-in first-served approach would ameliorate these effects, and secure, fully tradeable and perpetual water access entitlements would ensure that those businesses which need water licences in advance of specific uses (i.e. to secure final investment decisions) would be able to lease water to other users before projects commence.

Furthermore, it is vital that these decisions are underpinned by accurate, reliable and transparent data on water sources.

### *Allowing for future use*

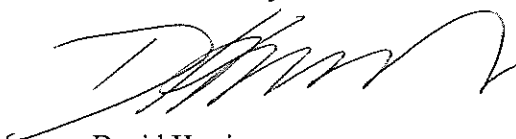
CCI members also raised concerns about appropriately valuing future uses of unallocated water. As noted in the discussion paper, these concerns will require careful thought in designing an auction mechanism to ensure that highly allocated sources are available for future high value uses. Creating fully tradeable water access entitlements would alleviate these concerns. This would ensure that water access entitlements can be sold at appropriate values at any given time, further underlining the need for broader legislative reform as outlined above.

### *Impact on Government revenue*

A market mechanism for allocating water could also generate significant revenue for the Government. How this revenue might be used is not considered in the discussion paper but needs to form of key part of planning moving forward.

Should you wish to discuss any of these issues further, please contact Drew Pearman, Senior Policy Adviser, Resources, Energy and Environment on 08 9365 7720 or [drew.pearman@cciwa.com](mailto:drew.pearman@cciwa.com).

Yours Sincerely



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